Husky Oil 1978 Annual Report

SI

SI is the official symbol in all languages for the International System of Units (metric system) which is administered in Canada by The Metric Commission.

In this annual report, applicable statistics are stated in the terms used in the previous system of measurement (barrels, feet, inches) as well as in SI terms (metres, cubic metres) for purposes of continuity and to familiarize our shareholders with the relationship between the two systems, as applied to the petroleum industry.

Annual Meeting

The Annual General Meeting of Shareholders of Husky Oil Ltd. will be held in the Calgary Convention Centre, Calgary, Alberta on April 11, 1979. Formal notice of this meeting and proxy materials are enclosed.

Form 10-K

Copies of the Company's 1978 annual report on Form 10-K filed with the United States Securities and Exchange Commission, including financial statements and exhibits, will be provided without charge, to shareholders who send written requests to the Office of the Secretary of the Company at Husky Oil Ltd., 815-6th Street S.W., Calgary, Alberta, Canada T2P 1Y1.

Year in Brief

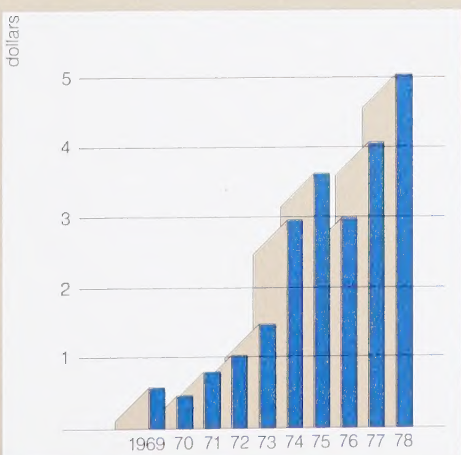
Highlights of Operations

Financial	1978	1977
	thousands of dollars	
Sales and operating revenues	$703,168	620,369
Working capital provided by operations	122,412	100,131
Net earnings	55,460	42,807
Net earnings per common share (in dollars)	5.02	4.06
Capital expenditures	146,818	91,998
Working capital at end of year	34,350	54,388
Long-term debt at end of year	145,946	134,788

Operations	1978	*	1977	*
Gross crude oil and gas liquids production (barrels daily)	48,253	7 668	47,937	7 618
Net crude oil and gas liquids production (barrels daily)	35,200	5 594	35,287	5 607
Gross natural gas production (mcf per day)	80,302	2 262	78,738	2 218
Net natural gas production (mcf per day)	60,829	1 714	61,061	1 720
Refinery runs (barrels daily)	60,080	9 547	59,521	9 458
Refined product sales (barrels daily)	71,007	11 284	68,638	10 907
Number of sales outlets	1,222		1,186	

**Represents volumes in cubic metres.*

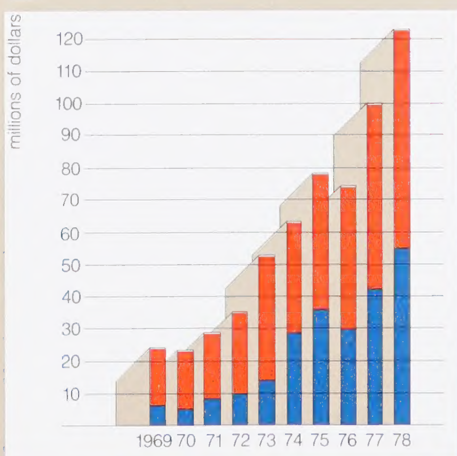
Net Earnings Per Share*
In Dollars



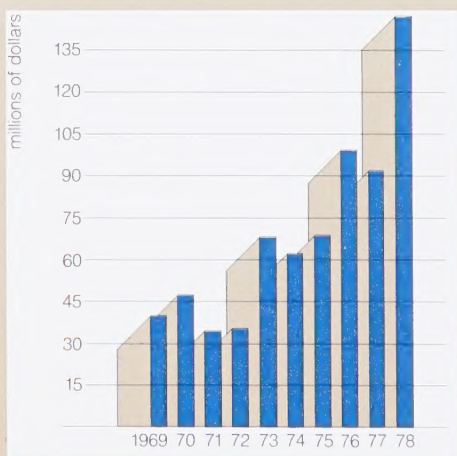
*Net earnings from operations including extraordinary items

Net Earnings

Working Capital from Operations



Capital Expenditures



Letter to Shareholders

For Husky, 1978 was a year of significant achievement. As we have stated before, major among the factors responsible for the record 1978 performance were the outstanding contributions made by our employees. Their dedication, loyalty and hard work, which in the past years has been so evident, was even more evidenced during 1978. Their performance, at times when they were not sure where ownership of the company would finally reside, and their overall ability to keep the company on an even keel and attain corporate goals and objectives was most commendable. In short, the employees deserve a special note of appreciation for their efforts, diligence and hard work — so dramatically evidenced by the company's record 1978 performance.

In review, Husky's net earnings for the twelve months ended December 31, 1978 improved 30 percent to a record high of $55.5 million or $5.02 per share, compared to $42.8 million or $4.06 per share in 1977. Fully diluted earnings were $4.87 per share this year compared to $3.80 per share in 1977. These net earnings are after a total provision for cash and deferred income taxes of $41.2 million in 1978 compared to $34.0 million the previous year. Sales and operating revenues were $703.2 million in 1978, up about 13 percent over $620.4 million the previous year. Cash flow from operations improved 22 percent to $122.4 million from $100.1 million in 1977. Our 1978 earnings represent a 7.9 percent return on gross revenues compared to 6.9 percent in 1977. The increase in earnings is primarily attributable to an overall improvement in all segments of petroleum operations and also reflects advances in steel and carbon activities.

The 1979 capital program includes $153.5 million for work programs, a 52 percent increase over the $101.2 million budgeted for 1978 work programs plus $5 million for contingent capital programs. As part of the 1979 program, $61.4 million is scheduled for heavy crude oil development in Lloydminster during the first year build-up of a five year $450 million project. The company's 1979 expenditures for oil and natural gas exploration and development in North America, much of which is earmarked for the Lloydminster program, will be the largest in Husky's history at $114.1 million, an increase of 66 percent over the $68.8 million budgeted for 1978. Included in the 1979 program is $10.9 million for tertiary or enhanced recovery work. In addition $14.8 million is forecast to be spent on international exploration in the Philippines, North Sea and in Pakistan. The remaining $24.6 million in the 1979 departmental budget will cover refining, marketing, supply and distribution, carbon, steel and administrative capital programs.

While we will be placing additional emphasis on Lloydminster heavy crude development in 1979, Husky will continue a balanced approach to the potential for growth of the entire company. Husky is going forward with preliminary engineering and design work for a heavy crude upgrading facility in Saskatchewan. In Husky's plans for participation in a similar facility in Alberta, recent changes in ownership of a major participant in the consortium have caused Husky to assess the goals and objectives of the new owner before committing significant funds to the project. The company's objective is to utilize its investment and time to the best advantage of developing the Western Canadian heavy oil industry.

In early June, the management of Husky received notification from Petro-Canada, the Canadian government owned oil and gas concern, that they intended to make an offer for any or all Husky shares. Occidental Petroleum Corporation indicated they too were interested in making an offer for the shares of Husky. Occidental's proposed offer involved the exchange of their preferred shares for common shares of Husky. On Monday, June 12, Husky's Board of Directors met and considered Petro-Canada's and Occidental's proposed offers. The Board found Occidental's proposal to be superior and recommended it to the shareholders. Shortly thereafter both Petro-Canada and Occidental announced improvements in their respective offers. One of the main attractions for these offers was Husky's position in the heavy oil reserves of Western Canada.

At the time of the Petro-Canada and Occidental proposed offers, Alberta Gas Trunk Line Company Limited (AGTL) informed Husky and the public that since the first of 1978, they and another company had jointly acquired over 3 percent of Husky's common shares on the open market. AGTL is a natural gas transmission company with interests in manufacturing, petro-chemicals, and gas production, sales and service in Canada and manufacturing in United States and Italy. During the latter part of June, AGTL purchased additional shares on the open market and increased their holdings to approximately 35 percent of the outstanding shares of Husky.

AGTL announced their 35 percent ownership on June 29. Petro-Canada subsequently announced they did not intend to proceed with the proposed offer and in July Occidental Petroleum announced they had withdrawn their application before the Canadian Foreign Investment Review Agency as well as their registration statement with United States Securities and Ex-

change Commission. Subsequently, Alberta Gas Trunk Line has increased their ownership to 49.4 percent of Husky's outstanding common shares.

At the July 27th meeting of Husky's Board of Directors, Mr. S. R. Blair, President and Chief Executive Officer of AGTL; Mr. Robert L. Pierce, Executive Vice President of AGTL; and Mr. William C. Rankin, Senior Vice President and Controller of that organization were named to fill vacant Husky Board positions. Also Mr. Blair and Mr. Pierce were named to the five member Executive Committee of the Board.

Although there have been significant changes in the ownership of Husky shares together with changes in the Board of Directors, there has been no change in direction of company programs. The priorities of the company are continuing as earlier stated with the added endorsement to accelerate the development of the company's assets, particularly the Lloydminster heavy oil reserves. In addition, prudent acquisitions, as a means of furthering company goals and objectives will be considered.

Husky's Board of Directors has considered, over the past several months, the possibility of restructuring the company into separately owned U.S. and Canadian entities. After considerable study, the Board has now determined such a separation is not now warranted.

Decisions reached this past year and this coming year by governments in Canada and United States, at all levels, will continue to have a significant effect on the future of our company. Husky, as it has in the past several years, will continue to devote more and more time and effort in communicating with governments, at all levels. By providing input into the governmental process, both legislative and administrative, we will continue to speak out on energy and related issues, not only to governments but to the public in general.

During the past few months, much has been written and published about Husky. Most writers have emphasized Husky's heavy oil position, particularly in Lloydminster, and have conveyed the impression that this was the bulk of the company's operations. We believe this annual report to shareholders illustrates that Husky's operations have many facets, all of which contributed to the largest earnings in our corporate history. Normally, the stock market would reflect this level of performance, but currently, we believe, it is not giving enough recognition to the company's earnings. Published articles and appraisal reports, practically without exception indicate our asset value appreciably exceeds the current market price. Although today's market price for Husky is ahead of where it was a year ago, it is still considerably below the per share asset value of the company.

We at Husky look forward to the challenge of doing our part to maintain an adequate supply of energy related products as well as in our steel and carbon operations for a strong Canadian and United States economy. We are optimistic there are many more opportunities existing for our company and our industry and we feel we have positioned ourselves to take advantage of these. But more importantly we must continue in our decisions and actions to consider the interest of our customers, investors and the general public.

Glenn E. Nielson
Glenn E. Nielson
Chairman of the Board

James E. Nielson
James E. Nielson
President

Exploration

In 1978, Husky's aggressive exploration programs resulted in an oil discovery offshore the Philippines and natural gas discoveries in Alberta, Canada, and in New Mexico, Wyoming and California in the United States. Husky also conducted a very active exploratory drilling program in the Lloydminster area of Alberta and Saskatchewan during the year.

The company continued to expand its land position in 1978 and increased its inventory of drilling prospects. An ongoing program to strengthen Husky's exploration staff progressed significantly with the addition of a number of highly qualified personnel. Most of the company's drilling prospects are now generated internally.

The Matinloc Number 1 well, which was drilled offshore the Philippines in the third quarter, tested crude oil from a reef on the Northwest Palawan Shelf at a rate in excess of 8,400 barrels (1 300 cubic metres) per day. The Matinloc Reef is part of the atoll on which a Husky interest discovery well, Cadlao Number 1, discovered crude oil a year earlier. A seismic program is presently being conducted over the entire atoll. Additional drilling, planned for 1979, will determine the commerciality of the Matinloc discovery. Husky also expects to begin development of the Cadlao oil accumulation in the Philippines with the drilling and completion of Cadlao Number 3 this year.

Husky, which had participated in the first discovery well in the area in 1976, Nido Number 1, will recover its drilling costs from a share of cash flow from oil production planned to begin from the Nido complex of wells in March.

Although Husky did not participate in the development within a two mile radius around the Nido Number 1 well, the company has continued its active participation in the remainder of the overall concession.

Husky has the dominant land position in the Philippines, involving a one-third working interest in about three million acres covering the major portion of the Northwest Palawan Shelf.

An offshore well was also drilled during the year in Pakistan, where Husky has a 95 percent working interest in a concession located one-half onshore and one-half offshore and covering the Indus River Delta. The well, which was abandoned, assisted in the evaluation of the northwest sector of the 4.4 million acre concession. Husky is continuing exploration activity in the area.

In North American exploration activity, a well drilled during the second quarter in Eddy County, New Mexico, tested natural gas at a rate of 20 million cubic feet (.6 million cubic metres) per day. The absolute open flow of the discovery, which encountered 110 feet (34 metres) of net pay in the Morrow Formation, was calculated at 61 million cubic feet (1.7 million cubic metres) per day. Husky has a 16 percent working interest in the well. Additional drilling is planned this year on Husky interest acreage adjacent to the discovery. In recent years, the company has built up a substantial land position in Southeast New Mexico and expects to continue its aggressive natural gas exploration program in the area.

(Page 4): Western Canadian Exploration Drilling; inset: Derrick floor – northern drilling. (Below): Exploration well near Cody refinery.

In the Massacre Hills area of the Green River Basin of Wyoming, two deep exploratory tests encountered natural gas shows in the Hilliard, Frontier and Dakota Formations in 1978. The first well, 18,300 feet (5 600 metres) in depth, was drilled to the Nugget Formation. The second well was drilled 16,700 feet (5 100 metres) to the Dakota Formation. Both wells will be production tested early in 1979. Of major interest in this venture is the Massacre Hills feature — a very large structure located on the west side of the Green River Basin.

A deep exploration well, drilled in the Big Horn Basin of Wyoming during the fourth quarter, was cased to a depth of 15,800 feet (4 800 metres) and will test the Mesa Verde and Lance Formations early in 1979. The well follows up an earlier deep test, near the City of Cody in the Big Horn Basin, which had experienced significant natural gas blows during drilling.

A Husky exploratory well discovered natural gas in the Sacramento Valley of California late in 1978 and further drilling on nearby Husky interest acreage is scheduled in the first quarter this year. Two zones were tested in the well, each at rates in excess of 4 million cubic feet (112 696 cubic metres) per day. Further drilling will be conducted in early 1979 and the company expects to be receiving gas revenue from this area later in the year.

In Canada, Husky has extended its exploration activity into the Deep Basin of Western Alberta and Northeastern British Columbia. Two wells — a 13,600 foot (4 100 metres) Cambrian test and a 17,500 foot (5 300 metres)

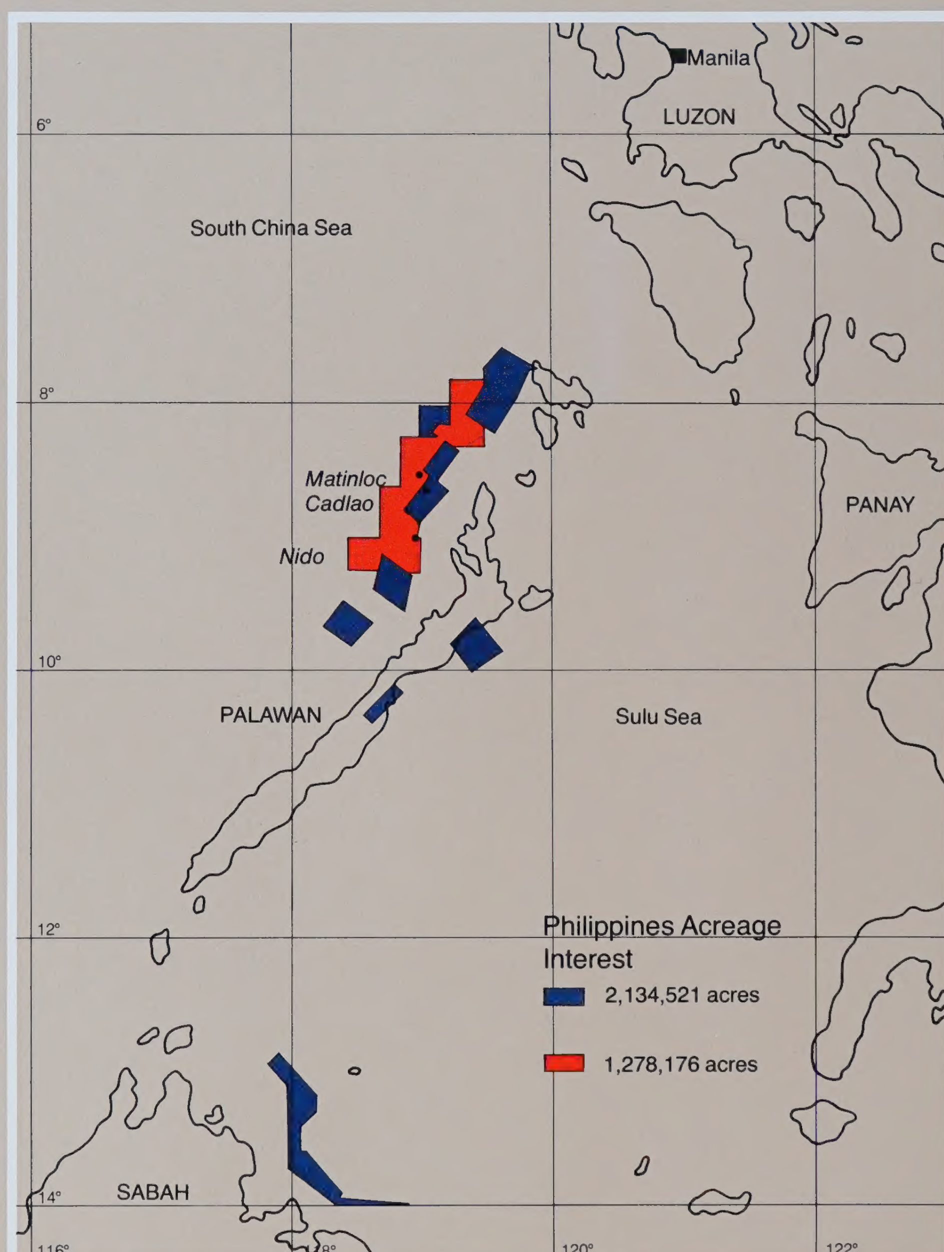
Leduc test — are drilling in Alberta. A 12,000 foot (3 700 metres) Jurassic test is drilling in Northeastern British Columbia. Two of these tests are on trend in the Elmworth natural gas play. Additional exploratory activity is planned for the Deep Basin in 1979.

A natural gas discovery in the Topland area of west central Alberta tested natural gas at a rate of 2.5 million cubic feet (70 435 cubic metres) per day. The discovery adds to Husky's inventory of natural gas development opportunities to be pursued as markets for Western Canadian natural gas improve.

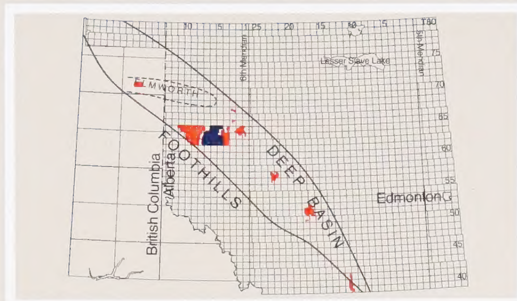
To ensure rig availability for current and ongoing exploration drilling programs, Husky entered into long term commitments in 1978 for deep drilling rigs in the United States and Canada. This assured access to drilling rigs should also provide the company with added opportunities for increased participation in future exploration ventures.

Husky's significant exploration activity in the Lloydminster area continued in 1978 and included a 900 mile (1 400 kilometre) seismic program as well as 22 exploratory wells. The 1978 program resulted in 6 indicated oil wells and 8 natural gas wells. The company expects to drill 50 exploratory wells in Lloydminster in 1979 in the first year of a five year program designed to complete the exploration of the area.

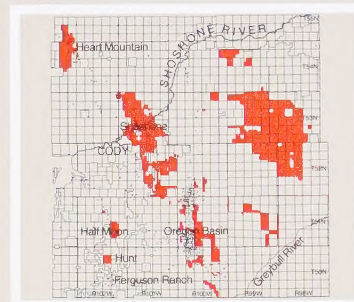
As an addition to a joint exploration program in the United States, Husky and another company have entered into a contract drilling joint venture. The venture owns three drilling rigs, each of which is equipped for air drilling, and an interest in one service rig. The exploratory joint venture will use one of the air drilling rigs in a multiwell stratigraphic test program to be conducted throughout the Rocky Mountain area.



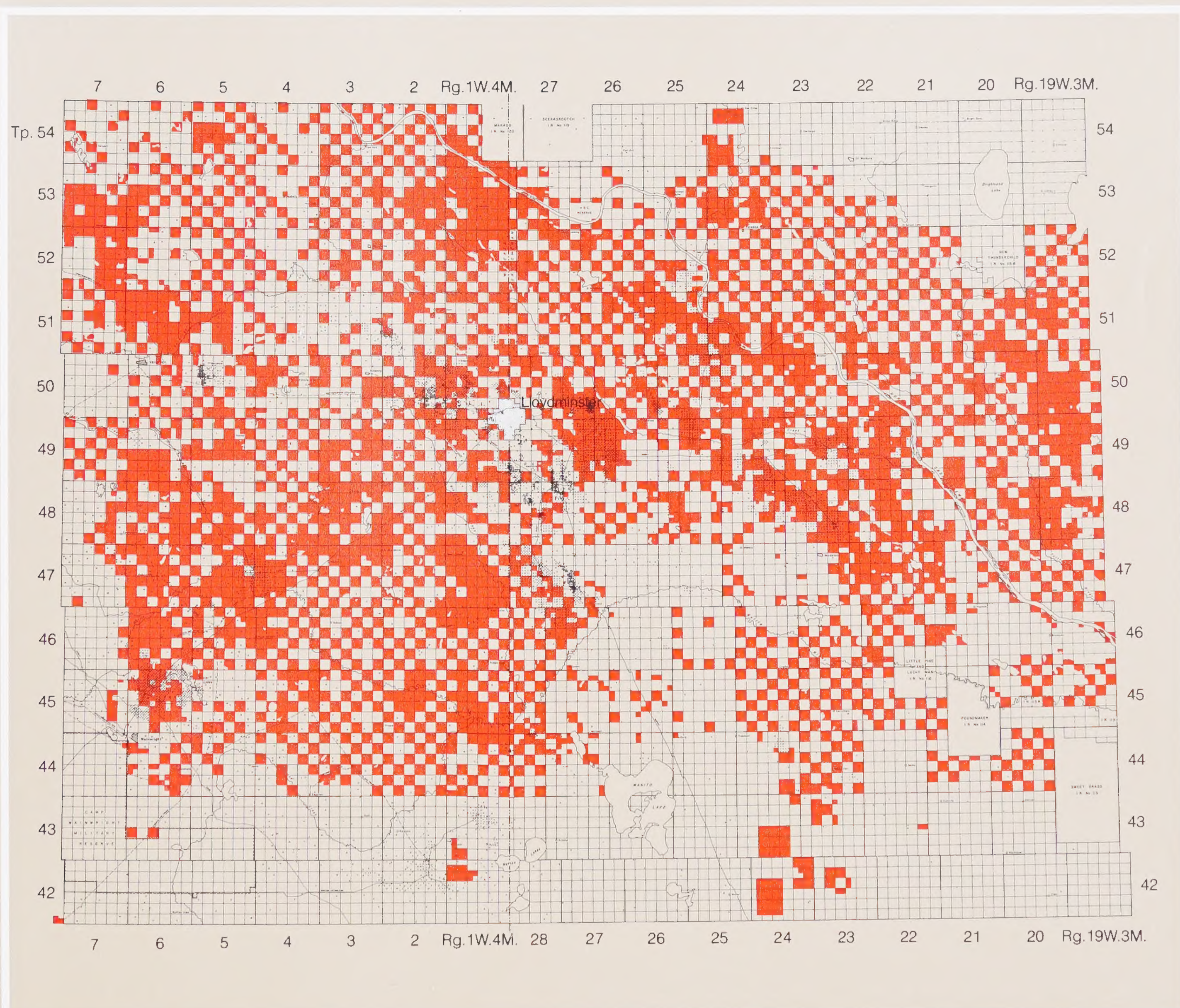
Areas are not shown to scale



1 Deep Basin, Alberta



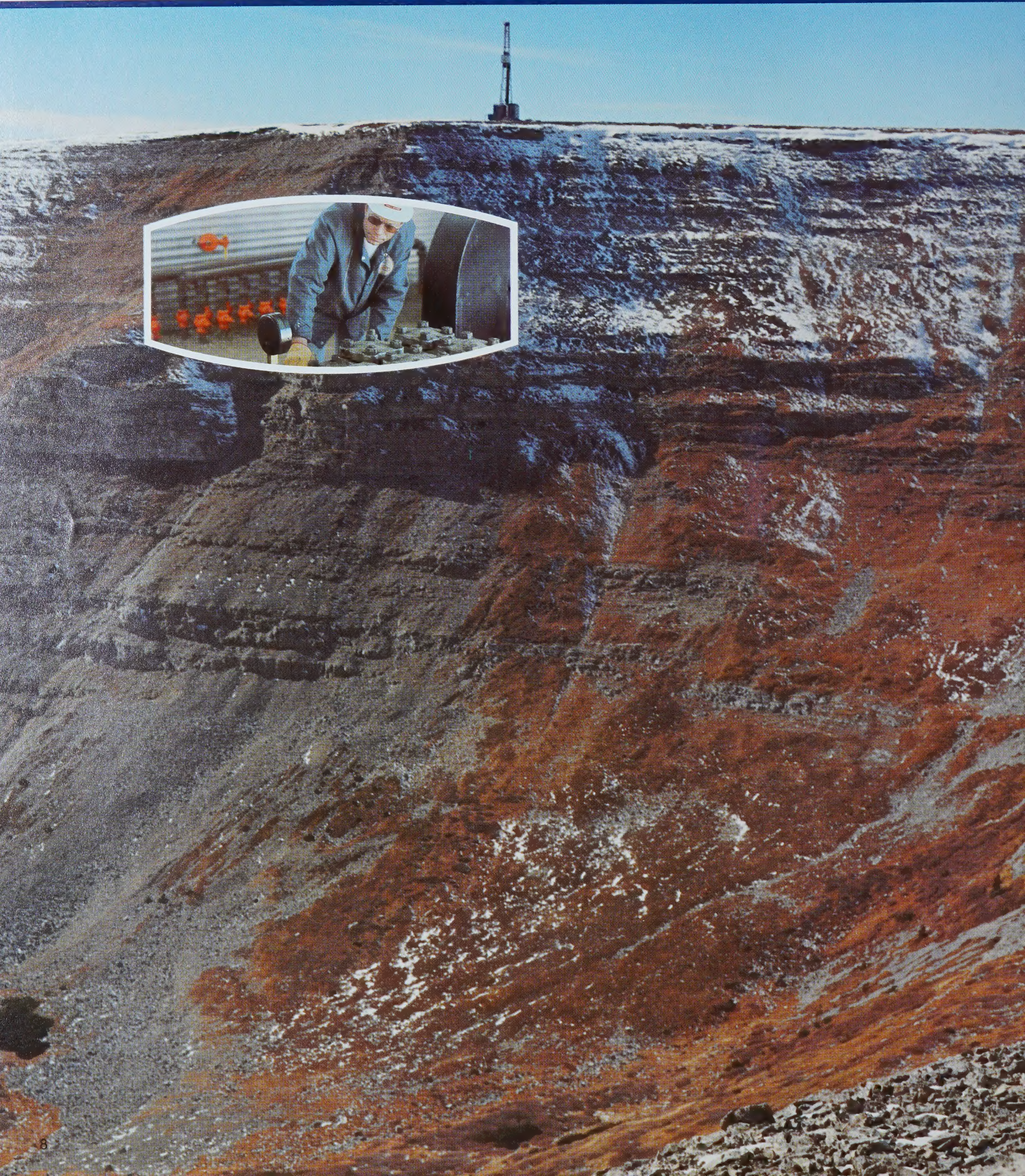
2 Cody — Shoshone Area, Wyoming



3 Lloydminster Area, Alberta/Saskatchewan

Areas are not shown to scale.

Production



Husky's gross oil and gas production increased in 1978 while income from production operations improved substantially in the period. In addition, significant development programs were begun in the Lloydminster area of Western Canada and in the Rocky Mountain region of the United States.

Husky's gross crude oil production increased to 48,300 barrels (7 700 cubic metres) per day in 1978 from 47,000 barrels (7 600 cubic metres) per day in 1977. Net crude oil production in 1978 averaged 35,200 barrels (5 600 cubic metres) per day compared to 35,300 barrels (5600 cubic metres) per day the previous year.

Gross natural gas production increased to 80.3 million cubic feet (2.3 million cubic metres) per day in 1978 from 78.7 million cubic feet (2.2 million cubic metres) per day in 1977. Net natural gas production averaged 60.8 million cubic feet (1.7 million cubic metres) per day compared to 61.1 million cubic feet (1.7 million cubic metres) per day in 1977. Net production volume comparisons for the stated years do not coincide with the increases in gross oil and gas volumes because of changes in provincial royalty structures.

The company's 1978 Lloydminster drilling program, which included 199 development wells, was completed early in December. Work began immediately on the 1979 program in which a total of 335 exploration and production wells are expected to be drilled in the area. Husky currently has four drilling rigs at work in Lloydminster and expects an increase to seven rigs working throughout the year following the "spring break-up."

Husky's current substantial heavy crude oil development program, announced in the fourth quarter of 1978, will involve a planned expenditure of $450 million in Western Canada over a five year period. With the completion of the program, the company expects to increase its net crude oil production by approximately 20,000 barrels (3 200 cubic metres) per day to a total of 40,000 barrels (6 400 cubic metres) per day from the Lloydminster area.

The program is designed, by completing the exploration of the area, to establish Husky's Lloydminster full production potential and, through the application of current technology, to demonstrate the potential of the application of tertiary recovery methods to the Lloydminster heavy oil reservoirs. Preliminary activity and detailed engineering for the construction of a heavy oil upgrading facility are included in the project. The program is expected to physically double the size of Husky's operations in Lloydminster by 1984.

Program operations will include the drilling of two thousand additional wells, construction of six hundred miles (966 kilometres) of gathering pipelines, twenty new tank batteries, three additional water flood recovery projects and nine more thermal recovery pilot projects.

(Page 8): Development drilling – Western Canada; inset: Crude oil treatment unit – Lloydminster. (Below): Lloydminster gathering system

Husky's dominant land position in Lloydminster involves 1.6 million acres checkerboarded throughout an area of established pools in a heavy oil region which extends 100 miles (161 kilometres) east to west and 65 miles (105 kilometres) north to south along the Alberta/Saskatchewan border.

Recent oil in place estimates by industry for Lloydminster range from 16 to 23 billion barrels (2.5 to 3.7 billion cubic metres). Early in 1979, the Geological Survey of Canada announced its estimate of oil in place, relative to Alberta only, at 40 billion barrels (6.4 billion cubic metres) and indicated a probability that a larger amount of oil in place is located on the Saskatchewan side of the Lloydminster region.

In the United States in 1978, seven of eight production wells were completed from our offshore Louisiana platform where production equipment is currently being installed. Delivery of natural gas from the platform is scheduled to begin in the first quarter of 1979.

The new natural gas production, expected to flow at rates in excess of 50 million cubic feet (1.4 million cubic metres) per day, will be the first from the offshore acreage which was acquired on a royalty basis as an alternative to the traditional cash bonus system.

Development drilling in the Cody oil field in the Big Horn Basin of Wyoming, in the Fuller Reservoir gas field in the Wind River Basin of Wyoming and in the Ackman area of Nebraska continued throughout the year. In the third quarter, Husky acquired the interest of another petroleum company in the southern section of the Cody field. As a result of the acquisition, which also included other acreage in Wyoming and New Mexico, the company now has a 100 percent working interest in the Cody field.

In California, Husky's heavy crude oil production, largely categorized as 'old oil,' was curtailed for almost three quarters of 1978 as a consequence of regulated 'old oil' prices which are lower than the company's direct costs of production. Applications, requesting a price amendment, have been submitted to the Department of Energy and Husky expects to receive a decision early in 1979.

In the United States, active drilling continued in 1978 on properties operated for the company by others. Operators of oil properties infill drilled and installed facilities to maintain upper tier production levels and operators of gas properties continued development drilling to take advantage of higher gas prices.

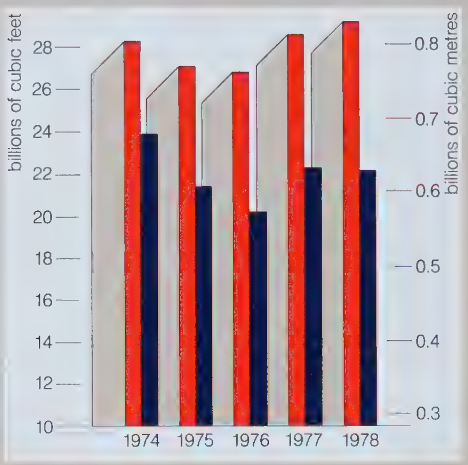
Early in the second quarter of 1978 Trans Canada Pipeline Company took contractual action to reduce sharply its natural gas purchase obligation to Western Canadian producers.

As a result of subsequent negotiations with the suppliers, Trans Canada Pipeline reduced its acceptance of natural gas nominations to an average of 80 percent of the minimum volumes specified in the original contracts. Trans Canada Pipeline agreed to pay the producers for the undelivered 20 percent of minimum volumes at current prices with the understanding that the 'held-back' natural gas would be taken over the next six years.

Husky is presently negotiating with the Saskatchewan Government with respect to the 60 percent tax rate imposed by the Oil Well Income Tax Act, 1978, and its regulations. The outcome cannot be predicted. The tax rate is approximately 10 percent greater than that imposed under the prior legislation. It is the stated intention of the Saskatchewan Government to ensure that the future economic effect of the Oil Well Income Tax Act, 1978, and the regulations thereunder are no more onerous to the oil industry than the economic effects of The Oil and Gas Conservation, Stabilization, and Development Act, 1973, and its regulations.

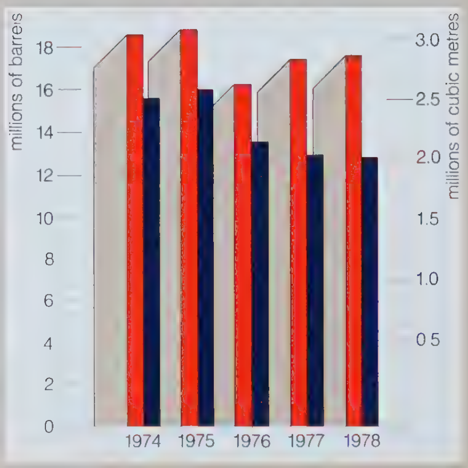
Gross Production Natural Gas

Net Production Natural Gas



Gross Production Crude Oil and Gas Liquids

Net Production Crude Oil and Gas Liquids



The posted price for Canadian crude oil production at the well head was increased $1 per barrel on July 1, 1978 in the third of a series of four projected price increases of this magnitude, at intervals of six months, begun July 1, 1977. The fourth increase of $1 per barrel, expected on January 1, 1979, was deferred until July 1, 1979 following discussions between the Canadian federal government and the governments of the producing provinces. A portion of the previous three price increases has been passed on to the producer.

	As at December 31, 1978	1977
Proven Net Reserves		
Cubic metres		
Crude Oil (barrels)	104,231,000	98,901,000
	16 563 000	15 716 000
Natural Gas (thousands of cubic feet)	293,858,000	292,203,000
	8 279 000	8 233 000
Probable Net Reserves		
Crude Oil (barrels)	23,531,000	23,695,000
	3 739 000	3 766 000
Natural Gas (thousands of cubic feet)	39,981,000	42,342,000
	1 127 000	1 193 000
Combined Proven and Probable Net Reserves		
Crude Oil (barrels)	127,762,000	122,596,000
	20 302 000	19 482 000
Natural Gas (thousands of cubic feet)	333,839,000	334,545,000
	9 406 000	9 426 000

Summary of Wells Drilled

	Gross Wells				Net Wells			
	Oil	Gas	Dry	Total	Oil	Gas	Dry	Total
Exploratory drilling	4	17	28	49	4	8	19	31
Development drilling	312	24	38	374	184	5	32	221
Total	316	41	66	423	188	13	51	252

Summary of Gross and Net Production

	Oil and Gas Liquids (Thousands of Barrels / Thousands of Cubic Metres)				Natural Gas (Millions of Cubic Feet / Millions of Cubic Metres)			
	1978		1977		1978		1977	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
CANADA								
Alberta	2,740	2,019	2,923	2,191	15,210	10,057	15,194	10,553
	435	321	465	348	429	283	428	298
Ontario	2	2	4	3	789	647	472	387
	—	—	—	—	22	18	13	11
Saskatchewan	912	493	954	560	476	443	700	643
	145	78	152	89	13	13	20	18
Lloydminster	7,524	4,958	7,239	4,803	4,912	4,428	3,362	3,060
	1 196	788	1 150	763	138	125	95	86
Total CANADA	11,178	7,472	11,120	7,557	21,387	15,575	19,728	14,643
	1 776	1 187	1 767	1 200	602	439	556	413
UNITED STATES								
California	620	526	746	649	76	64	39	34
	99	84	119	103	2	2	1	1
Colorado	826	648	811	635	313	268	202	184
	131	103	129	101	9	8	6	5
Montana	195	167	234	200	—	—	—	—
	31	26	37	32	—	—	—	—
New Mexico	749	643	776	666	4,458	3,771	5,072	4,329
	119	102	123	106	126	106	143	122
Texas	300	245	363	295	891	723	928	803
	47	39	58	47	25	20	26	23
Wyoming	2,988	2,534	2,741	2,320	1,247	1,069	1,668	1,433
	475	403	436	369	35	30	47	40
Other Areas	756	613	707	557	939	733	1,103	861
	120	97	112	88	27	20	31	24
Total UNITED STATES	6,434	5,376	6,378	5,322	7,924	6,628	9,012	7,644
	1 022	854	1 014	846	224	186	254	215
Total CANADA and UNITED STATES	17,612	12,848	17,498	12,879	29,311	22,203	28,740	22,287
	2 798	2 041	2 781	2 046	826	625	810	628

Refining, Marketing, Supply and Distribution

In 1978, refining throughput averaged 60,100 barrels (9 600 cubic metres) per day compared to 59,500 barrels (9 500 cubic metres) per day in 1977. Husky refineries processed 6,400 additional barrels (1 000 cubic metres) per day for another company.

Husky has five refineries: three are located in the United States, at Cody and Cheyenne, Wyoming and at North Salt Lake in Utah; two are located in Canada at Lloydminster, Alberta and at Prince George, British Columbia.

The Cheyenne and Cody refineries produce leaded and unleaded gasolines, other light oil products, diesel fuel, asphalts and heavy fuel oils. The Salt Lake refinery produces gasolines, diesel fuels, other light oil products and a high quality, low sulphur fuel oil. The Lloydminster plant produces premium asphalt for consumption in the prairie provinces of Western Canada.

At Cheyenne, work is continuing on a modernization and expansion project which will increase the refinery's light oil product capability and provide more flexibility in feedstock selection.

A substantial modification and debottlenecking project at the Prince George refinery, which was completed early in 1979, has increased crude oil processing capacity from 7,500 barrels (1 200 cubic metres) per day to 10,000 barrels (1 600 cubic metres) per day. As an effect of the modifications and with the addition of a fluid catalytic cracker, installed to upgrade product ratios, the plant's output of gasolines and distillates has doubled to a total of 7,900 barrels (1 255 cubic metres) per day. The Prince George refinery also produces type "A" asphalt as required for road paving in British Columbia, other types of asphalt, diesel fuel and light and heavy fuel oils.

A strike, begun on April 19, 1978 by the Oil, Chemical and Atomic Workers at Prince George, was settled on May 31, 1978. In the United States, collective bargaining agreements with the Oil, Chemical and Atomic Workers for the operation of the Cheyenne, Cody and Salt Lake refineries expired on January 9, 1979. New contracts, within the United States government's voluntary guidelines, were signed on January 24. At the Prince George refinery, a two year contract with the union has been signed and is effective February 1, 1979.

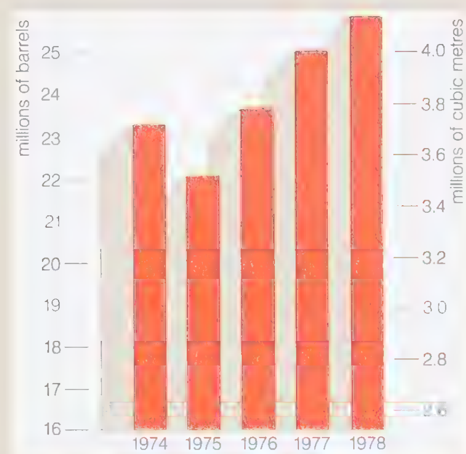
In the United States, a Department of Energy decision late in 1977 imposed a profit margin limitation on Husky's United States refining and marketing operation no greater than the profit margin realized during certain non-representative base period years. In a subsequent law suit filed by Husky against the Department of Energy, the Federal District Court ruled, on March 14, 1978, in Husky's favor. On appeal, the United States Temporary Emergency Court of Appeals sustained the March 14 ruling and remanded the case to the Department of Energy with instructions for reconsideration of Husky's application for exception relief and appropriate adjustments. The matter was not fully resolved at the end of 1978.

In Western Canada, preliminary design, engineering and evaluation of a crude oil upgrading facility in Saskatchewan near the City of Lloydminster is continuing as part of Husky's current major program to accelerate heavy crude oil development.

Husky's plans to participate in a consortium for a heavy crude oil upgrading plant in Alberta are continuing. The principal company in the consortium has recently undergone a change in ownership, however, and prior to a significant monetary commitment, Husky will assess the effects, if any, of the change.

An effort to reduce the amount of energy consumed in Husky's refining process, begun in 1977, was continued during the year. The company's energy consumption in refining has been reduced approximately 25 percent as a result of added emphasis on energy efficient methods and conservation practices.

Refined Product Sales



Summary of Refinery Runs

	Thousands of Barrels 1978	Thousands of Barrels 1977	Thousands of Cubic Metres 1978	Thousands of Cubic Metres 1977
Refinery				
Cheyenne, Wyoming	**8,492**	8,653	1 349	1 375
Cody, Wyoming	**3,998**	4,219	635	670
North Salt Lake, Utah	**3,784**	2,980	602	473
Lloydminster, Alberta	**3,491**	3,452	555	549
Prince George, British Columbia	**2,164**	2,421	344	385
Total	**21,929**	21,725	3 485	3 452

(Page 12): North Salt Lake refinery; inset: Cheyenne refinery.


Husky
Outboard Motor Oil
Husky
Husky
Husky
Husky
Self Serve
Husky

Sales of refined products in 1978 were the highest in the history of the company. Total refined product sales increased to 71,000 barrels (11 300 cubic metres) per day from 68,600 barrels (10 900 cubic metres) per day in 1977. While heavy and light oil sales and income increased in the company as a whole, percentage increases were substantially higher in the United States than in Canada.

Heavy oil sales and income improved significantly in the United States in 1978 and overall advances in heavy oil marketing are expected to continue in 1979.

Light oil sales in Canada increased marginally in 1978 in a period of extremely competitive market conditions in the industry as a whole. In the United States, additional marketing development was limited during the year as an effect of restricted availability of light oil products. Of total gasoline and distillate sales in the United States in 1978, 76 percent was manufactured by Husky refineries and the remaining 24 percent was purchased from others for resale through Husky outlets.

Sales of tires, batteries and accessories increased by 64 percent in 1978 and restaurant income also improved substantially during the year.

Marketing capital expenditures in 1978 included remodeling and rebuilding projects throughout Husky's marketing area and the addition of two Car/Truckstops in Canada. These projects conform to the company's corporate re-identification program which is continuing in both Canada and the United States.

Improved results in automotive associated product sales and improvements in income from restaurants are primarily an effect of the remodeling activity. In addition, a Car/Truckstop personnel training program, maintained throughout 1978, has resulted in generally improved marketing operations, including further improvements in customer service.

Husky's unique system of high gallonage Car/Truckstops follows the Trans Canada Highway from the west coast to Eastern Ontario in Canada. In the United States, Car/Truckstops are located along interstate highways in fifteen western states.

Located on commercial trucking routes, the large outlets are open 24 hours a day and offer diesel fuel in addition to gasoline and include restaurant facilities for the motoring families as well as the commercial trucker.

(Page 14): Self-serve marketing outlet – new Husky corporate design; inset: New packaging design-lubricants. (Below): Husky House designation, Car/Truckstop.

(Below): Wholesale marketing outlet, light oil products.

Car/Truckstops have large parking and turning areas and are continuing to gain added acceptance as convenient stop-offs for short and long distance truckers. In addition, current design offers complete facilities for the family motorist including accessories and repair and maintenance service. Sanitary off-loading for recreation vehicles and house trailers is available together with propane and water re-supply. Husky currently has 70 Car/Truckstops and associated Husky House Restaurants in operation throughout its marketing chain.

In 1978 Husky acquired the marketing outlets of a Winnipeg, Manitoba based retail gasoline marketing operation which had marketed gasoline in the area under the ROCO brand name for more than 50 years. The transaction involved 45 Southern Manitoba locations which are mainly concentrated in Winnipeg.

Current Husky marketing plans include the implementation of a program emphasizing broader utilization of service station locations. The program complements the company's petroleum and related sales and will involve upgrading restaurants, adding Husky House Restaurants and adapting marketing methods to make more diverse use of retail locations in a period of changing traffic and social patterns.

Progress continued in 1978 in a program, begun in 1976, to convert certain Husky marketing outlets to operation as self-service locations. The program has generally resulted in substantial sales volume increases at the converted locations.

North America

Net Acreage Holdings and Rights on December 31, 1978

	Net Acres in thousands
CANADA	
Developed	230
Undeveloped	2,389
Total	2,619
UNITED STATES	
Developed	68
Undeveloped	973
Total	1,041

Canada

Basins

United States

- Refineries
- Areas of Oil and Gas Exploration Acreage
- Marketing Area
- Gate City Steel
- Husky Industries

Husky Oil NPR Operations, Inc.

In 1978, Husky entered its fourth year as Contract Operator of an exploration program for the U.S. Department of the Interior on the National Petroleum Reserve located on the north slope of Alaska. In the third year's program, covering the October 1977 to September 1978 fiscal period, Husky drilled 7 wells and completed 1,900 miles (3 058 kilometres) of a continuing seismic/gravity program in the Southern Foothills, Umiat and Barrow areas.

Husky was selected as operator to explore and develop the 24 million acre National Petroleum Reserve in Alaska, in May 1975 and, following an organizational build up, had drilled a total of 15 wells by the end of 1978. In addition, seismic programs involving a total of 6,000 miles (9 600 kilometres) were completed in the first three years of operations.

The National Petroleum Reserve, totaling 37,000 square miles (95 830 square kilometres) in area, is located in a sedimentary basin on Alaska's north slope, west of the Prudhoe Bay oil field. The reserve is located in the Arctic coastal plain and Brooks range foothills.

Large scale contract operations in remote areas involve the establishment of extensive supply, transportation and life support systems. The very long lead times involved in procurement and delivery of equipment and materials require detailed logistical planning and management.

As part of its NPR operations Husky established a complete camp on the shores of the Beaufort Sea capable of the housing and support of a population of one hundred fifty people. Supplies, fuel, equipment and personnel are flown to the camp. For a brief period of a few weeks in late summer, when waterways are open, some supplies are delivered by barge train.

In addition to storage and maintenance facilities, Camp Lonely has a completely equipped airport. During regular operations at peak periods, Camp Lonely and remote sites in the Reserve handle an average of 182 takeoffs and landings per day. A communications system, established by Husky, provides direct communications via satellite between drilling rig and construction sites and the Anchorage offices. Directly and indirectly, more than two thousand people are employed as a result of Husky's contract operations on the National Petroleum Reserve in Alaska.

(Page 18): Ice Highway constructed by Husky for protection of Arctic tundra; inset: Winter drilling season – North slope of Alaska. (Two pictures below): Seismic operations – part of exploration activity on National Petroleum Reserve in Alaska.

By late 1978, most of the National Petroleum Reserve had been covered, at minimum, by geological reconnaisance surveys. In addition, seismic programs have been conducted over substantial areas of the reserve. The current year's operations, for example, will involve the completion of a seismic program comprising 1,600 line miles (2 414 kilometres). At the conclusion of the 1978-79 fiscal program, Husky will have completed 7,600 line miles (12 070 kilometres) of seismic programs in the reserve and will have drilled a total of 20 exploratory wells. Including previous seismic activity by the United States Navy, a total of 11,000 miles (17 703 kilometres) will have been completed over the area by the end of the 1978-79 project.

While geophysical activity is useful in defining the presence of structures in the reserve area, additional necessary information on the type and reservoir potential of the subsurface formations can be gained only through continuing exploratory drilling.

Five wells are currently drilling on the reserve. Of these, two are scheduled for depths of almost 20,000 feet (6 096 metres), the deepest ever drilled on the north slope of Alaska.

In addition, Husky Oil NPR Operations, Inc. has drilled five shallow wells near Barrow, Alaska, one of which discovered a new shallow gas field in the area.

At the conclusion of the current program, aggregate operational expenditures for the four years of operation under Husky management will be $515 million.

Gate City Steel

Gate City Steel's financial and operating results improved significantly in 1978.

Gate City is a wholly owned subsidiary of Husky and is engaged in warehousing, distribution and processing of steel and steel products, and in the fabrication of concrete reinforcing bar and miscellaneous light steel. Gate City has thirteen plants located in the midwestern and Rocky Mountain regions of the United States.

Gate City's headquarters and one plant are located in Omaha, Nebraska; five plants are located in the general Great Lakes area; one is located in Oklahoma and the remaining six are located in the mid-west and inter-mountain area from Iowa south to New Mexico.

In 1978, Gate City Steel's sales increased by 17 percent to $86.4 million from $74 million the previous year. Net earnings increased by 38 percent to $2.3 million from $1.7 million in 1977.

During the fourth quarter of 1978, Gate City Steel combined its Chicago slitting operations with the company's one million square foot (93 000 square metres) plant in nearby Gary, Indiana. Operations, which had been interrupted at the Gary plant due to the move, have resumed. Operations were also interrupted in a period of severe winter weather conditions in the area early in 1979.

In 1978, the United States Government introduced a 'trigger price' mechanism designed to reduce foreign steel imports. By the third quarter of 1978, the price system had aided the stabilization of market conditions allowing for a more orderly resale market which was reflected in improvements in Gate City's margins.

(Page 20): Custom processing steel to buyer's specifications, inset: Steel coils after slitting. (Above): Steel selection prior to shipment to buyer

(Below): Trimming steel to buyer's specifications.

(Below): Light fabrication, steel products.

Gate City also benefited from improvements in the operation of its earlier acquired plant at Gary, Indiana, which partially offset the effects of continued slow markets.

Located adjacent to a number of large steel mills, the Gary plant provides a central, or 'mother' warehousing function for the company's other plants and features equipment unique in the steel service industry.

Capable of decoiling and processing heavy gauge steel coils, this equipment allows for integrated slitting, shearing, stacking, conveying and banding in one continuous operation. The Gary system has the capability of leveling steel coils up to six feet (1.8 metres) in width, one half inch (12.7 millimetres) in thickness and weighing as much as forty tons (36 metric tonnes), a service previously available only from steel mills.

Husky Industries

Husky Industries sales and earnings increased in 1978 and established record high financial results for the company for the fifth consecutive year.

Husky Industries, as of January, 1979, a 90 percent owned susbsidiary of Husky, manufactures and markets charcoal briquets and associated products from eight plants in the United States. Three plants are located in the general Great Lakes area; four are in the southeastern United States and one is located in Oregon. In a ninth plant, located at Romeo, Florida, the company produces activated carbon widely used in municipal water treatment.

Husky Industries sales revenues increased slightly in 1978 while net earnings increased by 8 percent to $3.4 million from $3.1 million the previous year.

The increased earnings of Husky Industries are the result of continued general operational improvements and of aggressive marketing policies.

During the first quarter of 1978, Husky Industries expanded its marketing areas, particularly for its instant lighting briquet product "Brix", to New Zealand, Australia and Japan. Later in the year, the company established a charcoal briquet manufacturing plant in Oregon.

Also in 1978, Husky Industries acquired a plant in Mississippi to replace facilities previously damaged by a fire at the company's Cookeville, Tennessee location.

Two multi-hearth furnaces, installed at the Dickinson, North Dakota plant in the past two years contributed to the company's improved performance during the period.

(Page 22): Charcoal briquets. (Below): Selection of Husky Industries products

Financial Review

Management's Discussion and Analysis of the Financial and Operating Summary

The following is Management's description of certain significant factors which affected the Company's operations for 1978 and 1977 compared with the previous year.

1978 Compared to 1977

The Company's net earnings for the year ended December 31, 1978 were $55.5 million, or $5.02 per share, compared to $42.8 million, or $4.06 per share, for 1977. Fully diluted earnings per share were $4.87 in 1978 and $3.80 in 1977. The increase in earnings results mainly from improvement in all segments of petroleum operations along with less significant advances in steel and charcoal operations.

Consolidated sales and operating revenues increased 13% to $703.2 million. This increase can be attributed to three major areas.

a. Sales of refined oil products improved $43.7 million of which approximately 65% was due to higher prices and approximately 35% was due to higher volumes. The price increases were spread throughout light and heavy oil products but the higher volumes were principally due to greater gasoline sales in the United States. The improved sales reflect greater demand, particularly in the United States.

b. Revenues from the production of crude oil and natural gas were up $28.0 million. Approximately 80% of this increase resulted from higher average prices received for crude oil (63% from Canadian production). Approximately 20% resulted from higher prices received from the production of natural gas (16% from production in Canada). The Canadian Government has been attempting to allow crude oil prices to rise to world levels and permitted a $1.00 per barrel ($6.29 per cubic metre) increase on January 1, 1978 and another $1.00 per barrel ($6.29 per cubic metre) increase on July 1, 1978. However, net of taxes and royalties, the Company received only about one-half of these increases.

c. Revenues from steel operations improved $12.4 million resulting from a firmer market during 1978 and an additional plant added in late 1977.

Cost of sales and operating expenses increased 11% while sales and operating revenues were up 13%. The resulting improved profit margin reflected mainly sales prices which increased slightly faster than costs throughout the Company's operations as well as improved volumes of refined oil products sold. Cost of sales for 1977 also contain an $11.3 million charge relative to the United States Department of Energy entitlements program (see note 10 of the notes to the consolidated financial statements). Additionally the operator fees from the United States National Petroleum Reserve — Alaska increased 46% to $4.9 million.

Selling, general and administrative expenses were up 12% mainly representing general increases throughout the operations.

Interest expense net was up 20% and reflected greater short-term and long-term borrowing as well as higher interest rates. Additionally, the adoption of a new accounting standard for leases, as explained below and in note 9 of the notes to the consolidated financial statements, contributed to the increase.

Market Information — 1978

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Market price per share				
6% Cumulative Redeemable Preferred Shares				
Series A				
1978 High	$39½	40	41	40¼
Low	38¼	39	40	39½
1977 High	35	40	40¾	40½
Low	33½	34	40	39
Series B				
1978 High	$39½	40	40⅞	40¾
Low	37½	38	40	39½
1977 High	36	40	40	40½
Low	32¾	35	35	37½
Common Shares (per Toronto Exchange)				
1978 High	$30⅞	53⅛	44¾	47⅞
Low	24⅞	27⅜	37½	32⅝
1977 High	26⅜	29⅞	31⅞	28
Low	19⅛	24¼	25	21⅝
Dividends per Common Share				
1978	$—	0.50	—	0.50
1977	—	0.40	—	0.40

Other expenses were up $6.8 million or 17% and include increases in depreciation and amortization charges of $3.9 million (17%) and increases in depletion charges of $3.7 million (20%). These increases reflect greater investment in depreciable property along with an increase in the depletion rates amounting to 24% in Canada and 21% in the United States. Higher depletion rates are an indication of the greater costs required to find and develop new oil and gas reserves. Additionally, as explained in note 9 of the notes to the consolidated financial statements, the Company adopted a new accounting policy for leases. Since 1977 net earnings were not restated, 1978 net earnings include depreciation charges of approximately $1.1 million without comparable adjustment to 1977.

The provision for income taxes increased 21% to $41.2 million but resulted mainly from higher earnings. The effective tax rate declined 1% to 43%.

Capital expenditures were $146.8 million in 1978, an increase of $54.8 million over 1977. Approximately three-fourths of the capital expenditures were financed from operations, the balance from other sources.

The ratio of net earnings from operations, expressed as a percent return on average total assets invested increased to 8% from 7.4% in 1977.

Capital Expenditures

	1978	1977	1976	1975	1974
		(thousands of dollars)			
Exploration	$ 33,827	31,686	21,388	19,664	16,989
Producing properties and pipeline facilities	55,008	33,990	21,004	31,248	21,081
Refining and Marketing	38,199	18,909	42,961	10,272	20,746
Other	19,784	7,413	14,054	7,141	3,435
Total	$146,818	91,998	99,407	68,325	62,251

Restated — see explanation in Financial and Operating Summary.

1977 Compared to 1976

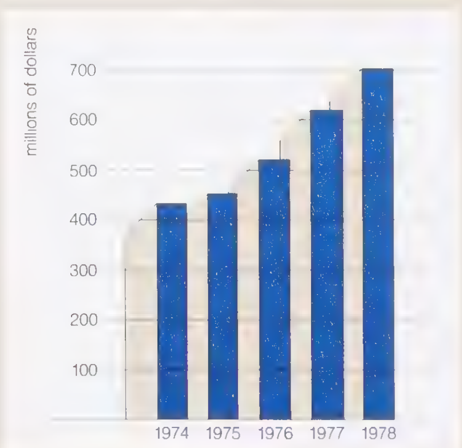
The Company's net earnings for the year ended December 31, 1977 were $42.8 million ($4.06 per share) compared to $29.8 million ($2.99 per share) for 1976. The higher earnings were primarily a result of improvements in all segments of petroleum operations. The financial information for 1976 has been restated to reflect a retroactive change in accounting for leases (see note 9 of the notes to the consolidated financial statements).

Consolidated sales and operating revenues were up 19% to $620.4 million as a result of greater sales in almost all areas of the Company's business.

Revenues from the sale of crude oil and natural gas increased 25% reflecting both volume and price increases, of which approximately 50% resulted from higher prices. The gross volume of crude oil produced increased 7% (10% in Canada), while the net volume of crude oil actually declined 5% (11% in Canada). The decline resulted from a change by the Saskatchewan government in its method of revenue collection on oil production from a surcharge to a royalty basis. Although the new method has the effect of reducing net crude oil production volumes, the change has not significantly affected the Company's production income per barrel produced. The net volume of natural gas produced increased about 10%. The Company has the ability to produce natural gas at a higher rate but is limited by the market.

Revenues from the sale of refined petroleum products increased an overall 21% including an increase from the sale of asphalts and heavy fuels of 12% and gasoline and all other products of 24%. Prices for both classes of products increased over the previous year's level as demand improved in 1977. The volume of light petroleum products was up 28% in Canada and 5% in the United States. The large increase in Canada was primarily as a result of the acquisition of additional refining and marketing assets in November, 1976. Additionally, more service stations were converted to self-service units in both Canada and the United States during 1977. The volume of asphalts and heavy fuels sold in Canada was 33% higher in 1977 but, coupled with the decline in the United States, the total volume was down 4%. The increased volume in Canada can be attributed to additional capacity purchased in

Sales and Operating Revenues



November, 1976 and a greater demand for asphalt in the Western provinces. The production of asphalt was reduced in the United States in late 1976 because of low demand for the product. The planned reduction was accomplished by altering crude processed to lighter feedstocks. The Company's dependence on the volatile asphalt market will be further reduced by the installation of coking facilities at its Cheyenne refinery, scheduled to be completed in mid 1979.

Revenues from steel operations increased 7% to $74 million. Earnings before income taxes were down 31% to $3 million. Profit margins continued to be down because of low priced foreign and domestic steel and rising costs in all areas of operation.

Revenues from charcoal operations increased 3% to $37 million primarily because of price increases. The volume of briquets sold declined 8% resulting from raw material shortages which were caused by work stoppage at suppliers' facilities. Earnings before income taxes were up 14%.

Consolidated cost of sales and operating expenses increased 18% while sales increased 19%. The resulting improved profit margin primarily reflects more profitable refining and marketing operations in the United States. Costs, particularly crude oil costs, rose at a lower rate than sales prices. Demand for both light and heavy oil products was firmer in 1977 and the volume of less profitable heavy oil products was reduced as explained above. The improved profit margin was achieved in spite of a charge of $11.3 million relative to the United States Department of Energy entitlements program (see note 10 of the notes to the consolidated financial statements). Additionally, higher prices for crude oil and natural gas provided a better margin for the production of those products in Canada.

Selling, general and administrative expenses were 16% higher in 1977. This increase was caused by general cost increases throughout the operation and to an expanded level of business activity.

Interest expense increased only 3% in 1977. However in 1976 interest includes an amount of approximately $1 million resulting from a retroactive change in accounting for leases with no comparable adjustment in 1977.

Debt financing, both short-term and long-term, was at a higher level during most of 1977. Interest rates also began rising in 1977.

Other expenses were up $3 million (9%) and included increases in depreciation, depletion and amortization of over $5 million (16%). Depreciation was 15% higher and resulted from greater investment in depreciable assets. Depletion was up 14% reflecting both greater expenditures in explor-

Business Segments

	Year ended December 31, 1978	1977	1976	1975	1974
	(thousands of dollars)				
Information by Industry Segment					
Sales					
Petroleum					
Crude oil and natural gas	$118,803	94,230	75,426	65,008	50,171
Asphalts and heavy fuels	84,599	73,903	65,928	74,102	66,455
Gasoline, light fuels and other	374,780	341,532	276,346	226,263	218,940
	578,182	509,665	417,700	365,373	335,566
Steel warehousing and processing	86,428	73,980	69,083	61,816	79,270
Charcoal	38,558	36,724	35,574	27,202	20,470
Consolidated total	$703,168	620,369	522,357	454,391	435,306
Operating profit					
Petroleum production, refining and marketing	$103,312	81,778	59,384	68,389	53,519
Steel warehousing and processing	5,223	3,918	5,101	6,326	7,851
Charcoal	6,509	5,839	5,267	3,809	1,498
	115,044	91,535	69,752	78,524	62,868
Interest expense	(16,318)	(13,595)	(13,203)	(10,988)	(10,193)
General corporate and minority interest	(2,051)	(1,162)	(1,173)	(456)	(583)
Consolidated earnings before income taxes	$ 96,675	76,778	55,376	67,080	52,092
Identifiable assets					
Petroleum production, refining and marketing	$686,239	545,721	481,095	395,418	361,528
Steel warehousing and processing	45,719	48,372	43,680	32,798	31,289
Charcoal	34,322	19,729	16,686	16,077	14,590
	766,280	613,822	541,461	444,293	407,407
General corporate	112	48	15	29	160
Consolidated total	$766,392	613,870	541,476	444,322	407,567

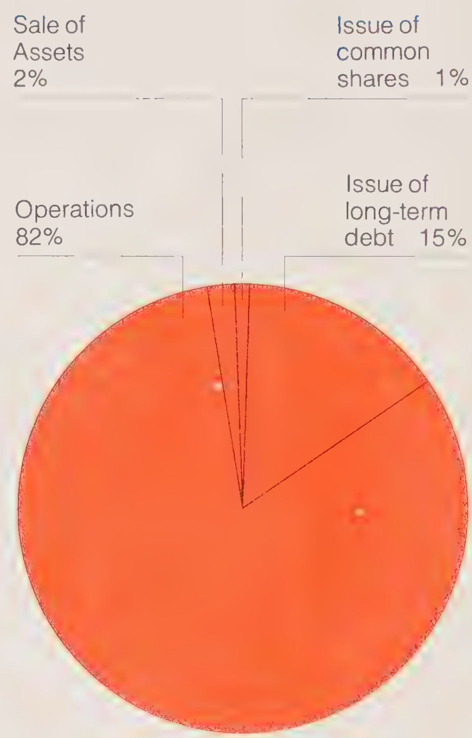
ing for and developing petroleum reserves and a greater volume of production.

Income taxes increased 33% to $34 million as a result of greater earnings in 1977. The effective rate declined 2% to 44%.

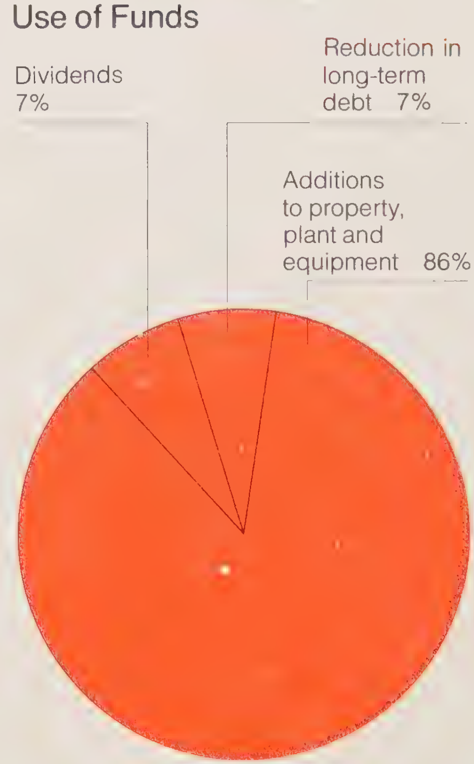
Capital expenditures for 1977 of $92 million were $7 million less than in 1976. Exploration and development expenditures amounted to $66 million compared to $42 million in the previous year. Capital expenditures in 1977 were financed primarily from operations.

The ratio of net earnings from operations, expressed as a percent return on average total assets invested increased from 6% in 1976 to 7.4% in 1977.

Source of Funds



Use of Funds



Business Segments

	Year ended December 31, 1978	1977	1976	1975	1974
	(thousands of dollars)				
Information by Geographic Area					
Sales					
Canada	$236,564	209,658	147,312	113,586	104,970
United States	468,109	412,935	376,454	344,528	333,581
Other	—	—	—	—	—
Elimination of inter-segment sales	(1,505)	(2,224)	(1,409)	(3,723)	(3,245)
Consolidated total	$703,168	620,369	522,357	454,391	435,306
Operating profit					
Canada	$ 76,152	59,296	45,105	44,737	33,365
United States	42,196	33,920	25,479	34,064	29,707
Other	(3,304)	(1,681)	(832)	(277)	(204)
	115,044	91,535	69,752	78,524	62,868
Interest expense	(16,318)	(13,595)	(13,203)	(10,988)	(10,193)
General corporate and minority interest	(2,051)	(1,162)	(1,173)	(456)	(583)
Consolidated earnings before income taxes	$ 96,675	76,778	55,376	67,080	52,092
Identifiable assets					
Canada	$351,824	281,600	257,918	199,264	176,528
United States	396,170	320,845	275,511	241,374	229,470
Other	18,286	11,377	8,032	3,655	1,409
	766,280	613,822	541,461	444,293	407,407
General corporate	112	48	15	29	160
Consolidated total	$766,392	613,870	541,476	444,322	407,567

Restated — see explanation in Financial and Operating Summary.

Consolidated Statements of Earnings

(stated in thousands of dollars)

	Year ended December 31, 1978	1977
Sales and operating revenues	$703,168	620,369
Costs and expenses		
Cost of sales and operating expenses	499,481	450,781
Selling, general and administrative expenses	42,952	38,309
Interest (net of interest income of $1,788,000 in 1978 and $868,000 in 1977)	16,318	13,595
Miscellaneous — net	(1,979)	(1,177)
Depreciation and amortization	26,951	23,070
Depletion	22,099	18,393
Minority interest in earnings of consolidated subsidiary	671	620
	606,493	543,591
Earnings before income taxes	96,675	76,778
Income taxes (note 5)		
Current	24,267	22,360
Deferred	16,948	11,611
	41,215	33,971
Net earnings	$ 55,460	42,807
Earnings per common share		
Basic	$5.02	4.06
Fully diluted	$4.87	3.80

See accompanying notes to consolidated financial statements.

Consolidated Statements of Other Paid-in Capital and Retained Earnings

(stated in thousands of dollars)

	Year ended December 31, Other Paid-in Capital 1978	1977	Retained Earnings 1978	1977 (Restated)
Balance at beginning of year as previously reported	$96,271	74,874	153,920	120,185
Retroactive adjustment resulting from capitalization of leases (note 9)			(2,315)	(2,315)
As restated	96,271	74,874	151,605	117,870
Add				
Credit arising from sinking fund redemption of preferred shares			181	127
Excess of consideration received over par value of common shares issued (note 6)	1,764	21,397		
Net earnings			55,460	42,807
	98,035	96,271	207,246	160,804
Deduct				
Cash dividends				
Preferred shares			469	493
Common shares			10,964	8,287
Provision for redemption of preferred shares			420	419
	—	—	11,853	9,199
Balance at end of year	$98,035	96,271	195,393	151,605

See accompanying notes to consolidated financial statements.

Husky Oil Ltd.

Consolidated Balance Sheets

(stated in thousands of dollars)

Assets	December 31, 1978	1977 (Restated)
Current assets		
Cash	$ 11,432	11,948
Accounts and notes receivable	156,877	113,424
Inventories at lower of cost or net realizable value (note 2)	78,800	66,678
Prepaid expenses	952	765
Total current assets	248,061	192,815
Notes receivable and miscellaneous assets — at cost less amounts written off	7,418	6,730
Unrecovered costs — Santa Barbara project (note 3)	—	7,207
Property, plant and equipment — at cost (note 4)		
Oil and gas properties and equipment	420,561	345,927
Refining, manufacturing, marketing, transportation facilities and other assets	331,579	279,149
Accumulated depreciation and amortization	(170,904)	(149,429)
Accumulated depletion	(74,922)	(73,260)
	506,314	402,387
Other intangible assets — at cost less amounts written off	4,599	4,731
	$766,392	613,870

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity

	December 31, 1978	1977 (Restated)
Current liabilities		
Notes payable to banks (note 2)	$ 60,554	24,300
Accounts payable and accrued liabilities	139,345	99,339
Income taxes payable	2,762	8,534
Long-term debt due within one year (note 4)	11,050	6,254
Total current liabilities	213,711	138,427
Long-term debt (note 4)	145,946	134,788
Deferred credits		
Deferred income taxes (note 5)	85,650	67,412
Other	2,627	1,077
	88,277	68,489
Minority interest in consolidated subsidiary	3,251	2,580
Shareholders' equity (note 6)		
Cumulative, redeemable preferred shares, par value $50; authorized 623,550 shares, issued 154,964 shares in 1978 and 161,073 shares in 1977	7,748	8,053
Common shares, par value $1; authorized 40,000,000 shares, issued 10,994,023 shares in 1978 and 10,924,733 shares in 1977	10,994	10,925
Undistributable capital surplus arising from purchase and redemption of preferred shares	3,037	2,732
Other paid-in capital	98,035	96,271
Retained earnings	195,393	151,605
	315,207	269,586
Contingencies (notes 9 and 10)		
	$766,392	613,870

Approved on behalf of the Board on February 7, 1979 W.D. Dickie, Q.C., Director R.N. Dalby, Director

Consolidated Statements of Changes in Financial Position

(stated in thousands of dollars)

	Year ended December 31, 1978	1977 (Restated)
Funds provided		
Net earnings	$ 55,460	42,807
Add items not requiring working capital		
Depreciation, depletion and amortization	49,050	41,463
Deferred income taxes	18,238	15,001
Minority interest	671	620
Other	(1,007)	240
Working capital provided by operations	122,412	100,131
Issue of common shares	1,833	22,518
Sale of assets	2,862	6,410
Issue of long-term debt	22,889	15,453
Other	282	501
	150,278	145,013
Funds used		
Additions to property, plant and equipment	146,818	91,998
Reduction in long-term debt	11,826	38,374
Retirement of preferred shares	239	292
Dividends		
Preferred shares	469	493
Common shares	10,964	8,287
	170,316	139,444
Increase (decrease) in working capital	$ (20,038)	5,569
Changes in components of working capital		
Increase (decrease) in current assets		
Cash	$ (516)	997
Receivables	43,453	31,225
Inventories	12,122	(3,392)
Prepaid expenses	187	(142)
	55,246	28,688
Increase (decrease) in current liabilities		
Notes payable	36,254	(2,950)
Accounts payable and accrued liabilities	40,006	24,931
Income taxes payable	(5,772)	4,832
Long-term debt due within one year	4,796	(3,694)
	75,284	23,119
Increase (decrease) in working capital	$ (20,038)	5,569

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1978 and 1977

1. Significant Accounting Policies

The consolidated financial statements include the accounts of all subsidiaries. The Company owns 80% of the shares of Husky Industries, Inc.; all other subsidiaries are wholly owned. United States subsidiaries are included at $1.00 U.S. = $1.00 Cdn. The Canadian dollar was quoted in New York City at $0.8435 U.S. = $1.00 Canadian at December 31, 1978 and $0.9142 U.S. = $1.00 Canadian at December 31, 1977 (see note 12 — Foreign Currency Translation).

Substantially all of the companies' exploration and production activities related to oil and gas, are conducted jointly with others and accordingly the accounts reflect only the companies' proportionate interest in such activities.

The companies employ the "Full Cost" method of accounting and capitalize all North American exploration and reserve development costs. These costs are depleted on composite unit-of-production methods based upon proved developed reserves, as estimated by company engineers (see note 12 — Oil and Gas Accounting).

The cost of acquiring, exploring and developing oil and gas interests outside of North America, and all mining interests, have been capitalized pending the outcome of exploration in each area of interest. These costs are being amortized at an annual rate of 20% pending reserve development. Unamortized costs will be depleted by the method set forth above if sufficient reserves are developed. The unamortized costs of an abandoned area are charged against earnings at the time of abandonment. Unamortized costs at December 31, 1978 and 1977 amounted to $17,288,000 and $10,600,000, respectively (see note 12 — Oil and Gas Accounting).

Depreciation of certain production equipment is provided by the unit-of-production method. Depreciation of substantially all other depreciable assets is provided by the straight-line method at rates based upon their estimated useful lives as follows:

Classification	Rate
Refining and marketing facilities including buildings and refinery equipment	2.5-20%
Transportation facilities and equipment	5.0-50%
Production equipment (excluding equipment depreciated by unit-of-production method)	7.1-10%
Other depreciable assets	Various

Substantially all inventories, excluding materials and supplies which are stated at average cost, are valued at cost on a last-in, first-out basis.

Income tax expense is reduced by flow through of the allowable investment tax credit.

Other tangible assets with limited economic lives are being amortized on a straight-line basis over their estimated lives.

Proceeds received from gas take-or-pay agreements are deferred and taken into income as production occurs or upon expiration of the contract period.

The retirement and pension plans of the Company and its subsidiaries are contributory and are available to substantially all permanent employees. The policy is to fund accrued pension costs as determined by actuarial studies. The unfunded past service costs are being funded and charged to operations over periods ranging from 10 to 20 years.

Certain long-term lease transactions relating to the financing of property, plant and equipment are accounted for as puchases of property. The capitalized lease obligations reflect the present value of future rental payments discounted at the interest rate implicit in the lease, and the corresponding amount is capitalized as the cost of the assets and depreciated over the assets' estimated economic lives (see note 9).

Basic earnings per common share are based on the weighted average number of common shares outstanding during the year. Fully diluted earnings per share are computed as if all outstanding options, warrants, stock bonus shares awarded, or conversion privileges were exercised at the beginning of the year.

2. Inventories

The major categories of inventories at December 31, are summarized below:

	1978	1977
	(in thousands)	
Crude oil and refined oil products	**$39,222**	33,452
Steel and steel products	**16,853**	18,316
Charcoal briquets and raw materials	**14,313**	8,213
	70,388	59,981
Materials and supplies	**8,412**	6,697
	$78,800	66,678

If the first-in, first-out method had been used to value inventories, the amounts would have been approximately $35,908,000 and $30,407,000 higher than reported at December 31, 1978 and 1977.

A general assignment of receivables and inventories of certain Canadian subsidiaries has been given as security for $17,523,000 in notes payable to banks.

3. Unrecovered Costs — Santa Barbara Project

Unrecovered costs of the Santa Barbara project of $7,207,000 represent the unamortized cost of oil and gas leases off the coast of California acquired in 1968 which expired in 1973. In February, 1969, the Secretary of the Interior of the United States of America amended the regulations relating to drilling for oil and gas on the outer continental shelf and imposed an unlimited liability regardless of fault for damage caused by oil escaping. The Secretary also suspended drilling on these leases. As a result, ex-

ploratory operations on the leases were discontinued and several companies including Husky Oil Company filed suit against the United States of America requesting repayment of acquisition and exploratory costs incurred or compensation for the value of the leases. The court ruled in favor of the United States of America on January 24, 1979 and, as previously anticipated, all costs associated with the project were added to depletable costs at December 31, 1978 and depletion was provided for the year.

4. Long-term Debt

Long-term debt at December 31 consisted of:

	Maturity	1978	1977 (Restated)
		(in thousands)	
Husky Oil Ltd. and Canadian Subsidiaries (stated in Cdn. $)			
Secured			
Sinking fund debentures			
6% Series A	1984	$ 8,963	9,795
6¾% Series B	1987	14,276	15,212
8½% Series C	1991	12,834	12,975
Notes payable — Other	Various	4,381	1,735
Unsecured			
Notes payable			
9% — (1978 — $18,006,000 U.S., 1977 — $19,902,000 U.S.)	1982	17,480	19,553
¾% over prime	1983	9,500	10,000
		67,434	69,270
Husky Oil Company and United States Subsidiaries (stated in U.S. $)			
Secured			
Long-term lease obligations	Various	13,584	14,241
Notes payable			
4½% to 10%	Various	8,826	9,586
Unsecured			
Notes payable			
11¼%	1991	25,000	25,000
112% of prime plus ¼ of 1% per annum	1986	20,000	—
9%	1984	15,000	15,000
7% to 8½%	Various	7,152	7,945
		89,562	71,772
Total long-term debt		156,996	141,042
Less amount due within one year		11,050	6,254
		$145,946	134,788

Interest on long-term debt was $13,705,000 and $11,928,000 in 1978 and 1977, respectively. Assets of subsidiaries with an aggregate cost of approximately $54,800,000 and $49,600,000 on December 31, 1978 and 1977, respectively, are specifically pledged as collateral. Additionally, the Company has pledged the common shares of certain wholly owned subsidiaries and given a first floating charge on all other assets of the Company and its subsidiaries presently owned or hereafter acquired as security for the Series A, B and C Sinking Fund Debentures.

Aggregate annual maturities of long-term debt, including the present value of minimum lease payments, for the five years subsequent to December 31, 1978 are: 1979 — $11,050,000; 1980 — $12,413,000; 1981 — $14,722,000; 1982 — $33,299,000; 1983 — $15,370,000.

5. Income Taxes

The income taxes charged to earnings for the years ended December 31, 1978 and 1977 are made up of the following components:

	Canada Federal and Provincial	U.S. Federal and State	Total
	(in thousands)		
	1978		
Current taxes	$20,086	4,181	24,267
Deferred taxes			
Current	—	(1,290)	(1,290)
Non-current	9,418	8,820	18,238
	$29,504	11,711	41,215
	1977		
Current taxes	$18,060	4,300	22,360
Deferred taxes			
Current	—	(3,390)	(3,390)
Non-current	7,111	7,890	15,001
	$25,171	8,800	33,971

The provision for deferred income taxes consisted of the following timing differences:

	1978	1977
	(in thousands)	
Lease acquisition, drilling and exploration costs (net of depletion)	$14,484	9,998
Tax and book depreciation	5,539	7,167
Accrual for probable loss (see note 10)	(1,250)	(3,390)
Other	(1,826)	(2,164)
	$16,947	11,611

Total income taxes amounted to $41,215,000 in 1978 and $33,971,000 in 1977, an effective rate of approximately 43% in 1978 and 44% in 1977. These totals are less than the amount of $45,437,000 in 1978 and $36,086,000 in 1977 computed by applying the combined expected Canadian Federal and Provincial tax rates to earnings before income taxes. The reasons for these differences are as follows:

	1978 Amount (in thousands)	1978 % of Pretax Income	1977 Amount (in thousands)	1977 % of Pretax Income
Computed "expected" tax expense	$45,437	47	$36,086	47
Increase (decrease) in taxes resulting from:				
Royalties, lease rentals and mineral taxes payable to the Crown, net of Provincial rebates	19,533	20	15,564	20
Resource allowance on Canadian production income	(13,952)	(14)	(11,673)	(15)
Tax depletion on Canadian production income	(4,723)	(5)	(2,223)	(3)
Miscellaneous	(5,080)	(5)	(3,783)	(5)
	$41,215	43	$33,971	44

Income tax expense has been reduced by investment tax credits in the amount of $4,282,000 in 1978 and $1,927,000 in 1977.

6. Capital Shares

The Series A and B preferred shares require annual sinking funds to redeem 2,100 Series A shares at $53.50 per share and 5,850 Series B shares at $52.50 per share.

At December 31, preferred shares were issued and outstanding as follows:

	1978	1977
Series A — 6%	40,678	42,162
Series B — 6%	114,286	118,911
	154,964	161,073

Common shares were issued during the years ended December 31, 1978 and 1977 as follows:

Number Common Shares	Consideration	Credited to: Share Capital (in thousands)	Credited to: Other Paid-in Capital (in thousands)
	1978		
41,740	Cash (issued on exercise of stock options and stock purchase warrants)	$42	831
27,550	Stock bonus	27	933
69,290		$69	1,764
	1977		
520	Cash (issued on exercise of stock options and stock purchase warrants)	$ 1	6
18,800	Stock bonus	19	355
1,102,300	Conversion of convertible debentures — net	1,102	21,036
1,121,620		$1,122	21,397

Common shares have been reserved for issue as follows:

1978	1977	
257,720	298,960	Shares for Series E stock purchase warrants at an exercise price of $21.00 per share expiring August 15, 1981.
18,550	19,050	Shares under a share option plan for officers and employees at prices ranging from $6.77 to $12.94 per share and which generally expire in the year following termination of employment.
425,850	153,400	Shares under a stock bonus plan for key employees until December 31, 1993.
702,120	471,410	

At the Annual Meeting of shareholders held on April 12, 1978, the shareholders approved an amendment to the Company's stock bonus plan which: (1) increased the maximum number of shares which may be awarded from 200,000 to 500,000, (2) provided that a maximum number of 75,000 shares may be awarded for issue under the plan in any calendar year or in any period of ten consecutive months, and (3) extended the term from December 31, 1989 to December 31, 1993. As of December 31, 1978 and December 31, 1977, the Executive Compensation Committee of the Board of Directors had made awards, net of forfeitures, totaling 207,650 and 139,550 shares, respectively, of which 74,150 and 46,600 shares had been issued at December 31, 1978 and 1977, respectively.

7. Pension and Retirement Plans

Total pension expense was $3,138,000 and $2,855,000 for 1978 and 1977, respectively, which includes amortization of the past service costs. Based on actuarial reports, the assets of the plans exceed the total actuarially computed value of vested benefits for employees. The unfunded past service costs amounted to $2,666,000 and $2,811,000 at December 31, 1978 and 1977, respectively. Such amounts are being funded and charged to operations over periods ranging from 10 to 20 years.

8. Officers and Directors Remuneration

The Company had 15 directors and 17 officers in 1978 and, during 1977, had 12 directors and 18 officers, 2 of whom served in both capacities in both years. Remuneration was as follows:

Paid by	Directors 1978	Directors 1977	Officers 1978	Officers 1977
	(in thousands)			
Husky Oil Ltd.	$ 87	63		
Husky Oil Operations Ltd.			697	307
Husky Oil Company	32	36	1,254	1,120
Husky Oil NPR Operations, Inc.				22
	$119	99	1,951	1,449

9. Lease Commitments

The companies conduct a minor portion of their operations with leased facilities which include service stations, refinery equipment, transportation, office and other miscellaneous equipment. Contingent rentals are paid to lessors of certain service stations and are based upon sales volumes in excess of stipulated minimums. The terms of the numerous leases vary significantly. Some leases have renewal options and others have purchase options.

During 1978 the Company retroactively adopted the recommendations of the Canadian Institute of Chartered Accountants and the United States Financial Accounting Standards Board in regard to accounting for leases. This change had no material effect on the earnings for 1977 and 1978 but resulted in a reduction of retained earnings at January 1, 1977 of $2,315,000.

Assets under capital leases recorded in the property, plant and equipment accounts at December 31 are summarized as follows:

	1978	1977
	(in thousands)	
Service stations	$12,111	12,496
Refineries	8,000	8,000
Other	993	868
	21,104	21,364
Accumulated depreciation	(10,814)	(9,973)
	$10,290	11,391

The following is a schedule of future minimum rental payments at December 31, 1978, required by year under non-cancellable leases that have terms in excess of one year.

	Capital Leases	Operating Leases
	(in thousands)	
1979	$ 2,185	2,732
1980	1,993	1,483
1981	1,972	646
1982	1,897	227
1983	1,898	106
Later years	12,695	46
Total minimum lease payments	22,640	5,240
Less imputed interest	9,056	
Present value of minimum lease payments	$13,584	

The following schedule shows the composition of total rent expense for all operating leases.

	1978	1977
	(in thousands)	
Minimum rents	$5,394	8,317
Contingent rents	515	390
Sublease rents	(435)	(2,810)
	$5,474	5,897

10. Contingencies

The petroleum operations of the Company in the United States are regulated extensively by the United States Department of Energy (DOE), which controls crude oil and refined product allocation and the prices of crude oil and most refined products. The regulations are extremely complex and are continually being changed. This results in many areas of uncertainty which may require further interpretation. The DOE, which is presently auditing part of the year 1973 and all of the year 1974, may and, in some cases has raised questions that could involve significant sums. Many of the regulations need further clarification, and litigation may be required to obtain resolution. While the ultimate outcome cannot be determined at this time, in the opinion of Management, the Company is in substantial compliance with the regulations as issued and any liabilities which may result would not be material to the financial position of the Company.

The entitlements program, administered by the DOE, was instituted in 1974 in an effort to ameliorate inequities arising out of the United States government's multi-tier crude oil price program. A subsidiary obtained exception from the entitlements program through September, 1977 conditioned on maintenance of a profit margin no greater than the profit margin realized by the subsidiary's refining and marketing operations in certain base years. In the fall of 1977 the subsidiary filed a suit against the DOE seeking to enjoin enforcement of the restrictive profit margin limitation. The Federal District Court entered a decision finding the DOE's requirements, as applied to the subsidiary, to be arbitrary and capricious. On April 12, 1978, the DOE filed an appeal to the Temporary Emergency Court of Appeals (TECA), which, on August 10, 1978, sustained the ruling of the District Court. The matter was remanded to the Agency with directions to reconsider. The DOE reopened the proceedings on October 19, 1978 and requested additional financial information. The impact this decision will have upon the Company will not be known until the DOE completes its reconsideration, as directed by the courts. At December 31, 1978 and 1977 the Company has provided $11,282,000 for entitlement costs relative to 1977. In the year the matter is resolved, retained earnings would be

affected by approximately one-half of any change to the entitlements provision.

The Company and its subsidiaries are defendants in various lawsuits at December 31, 1978. While it is impossible to estimate the ultimate liability with respect to pending litigation, Management believes there will be no material adverse effect on the financial position of the companies.

11. Business Segments

The following is an analysis of certain consolidated financial information by industry lines and geographic areas.

	1978			1977		
Information by Different Industries	Sales	Operating Profit	Identifiable Assets	Sales	Operating Profit	Identifiable Assets
			(in thousands)			
Petroleum	$578,182	103,312	686,239	509,665	81,778	545,721
Steel	86,428	5,223	45,719	73,980	3,918	48,372
Charcoal	38,558	6,509	34,322	36,724	5,839	19,729
Combined	703,168	115,044	766,280	620,369	91,535	613,822
General corporate		(1,380)	112		(542)	48
Interest (net)		(16,318)			(13,595)	
Minority interest		(671)			(620)	
Consolidated	$703,168	96,675	766,392	620,369	76,778	613,870
Information by Different Geographic Areas						
Canada	$236,564	76,152	351,824	209,658	59,296	281,600
United States	468,109	42,196	396,170	412,935	33,920	320,845
Other		(3,304)	18,286		(1,681)	11,377
Adjustments & eliminations	(1,505)			(2,224)		
Combined	703,168	115,044	766,280	620,369	91,535	613,822
General corporate		(1,380)	112		(542)	48
Interest (net)		(16,318)			(13,595)	
Minority interest		(671)			(620)	
Consolidated	$703,168	96,675	766,392	620,369	76,778	613,870

The companies operate principally in three industries: petroleum, steel and charcoal. Petroleum operations include the exploration for and the production of crude oil and natural gas, the refining of crude oil, the wholesale and retail marketing of refined petroleum products, and the pipeline transmission of crude oil, natural gas and finished products. Steel operations include warehousing, processing and fabrication, and distribution of steel and steel products. Charcoal operations include the production and marketing of barbecue briquets, activated carbon and other charcoal products.

Operating profit is total revenue less operating expenses. In computing operating profit, none of the following items have been added or deducted: general corporate expenses, interest expense, minority interest and income taxes. Depreciation, depletion and amortization for petroleum, steel and charcoal, respectively, was $45,410,000, $1,629,000, and $2,011,000 in 1978 and $38,779,000, $1,594,000, and $1,090,000 in 1977. Capital expenditures for the three industries were $136,485,000, $1,531,000, and $8,802,000 in 1978 and $87,900,000, $1,450,000, and $2,648,000 in 1977.

Identifiable assets by industry or geographic areas are those assets that are used in the companies' operations in each industry or area. Identifiable assets for 1977 have been restated because the Company adopted a new accounting policy for leases (see note 9). Corporate assets are principally cash. Transfers between geographic areas, which are recorded at cost, are all related to the petroleum industry segment.

12. Proposed Accounting Changes

a. Oil and Gas Accounting

On December 5, 1977, the Financial Accounting Standards Board (FASB) in the United States issued a Financial Accounting Standard which, among other things, was concerned with the method of reporting income by oil and gas producing companies. The standard would have required companies to use the "Successful Efforts" rather than the

"Full Cost" method of accounting for oil and gas exploration and production operations. The provisions of the new standard were to be retroactively applied in fiscal years beginning after December 15, 1978.

After holding public hearings and conducting further studies during 1978, the United States Securities and Exchange Commission concluded on August 29, 1978 that either the successful efforts or the full cost method of accounting would be acceptable for filings with the Commission at the present time. Both methods will be supplemented with certain other disclosures such as quantities and valuation data on proved oil and gas reserves and cash flow from production activities. The Commission intends to proceed with the development of a new method of accounting for oil and gas producing activities which recognizes valuations of proved oil and gas reserves in producers' balance sheets and income statements.

Additionally the Commission issued regulations in December, 1978, which are effective for fiscal years ending after December 25, 1979, designed to standardize, on a retroactive basis, the provisions of the full cost method of accounting. Although further study and interpretation are required, it appears that the regulations will impose changes in the way the Company applies the full cost method.

b. Foreign Currency Translation

At the present time, the matter of foreign currency translation is under review in Canada and in the United States. It had been the Company's intent to adopt, in 1979, the recommendations of the Canadian Institute of Chartered Accountants regarding the translation of foreign currency transactions and foreign currency financial statements. However, these recommendations have recently been suspended. This matter will be pursued by the Company in the coming year.

Management has not determined what effect, if any, the new accounting rules and regulations will have on the Company's financial statements.

13. Replacement Cost Data (Unaudited)

Footnotes to the financial statements in the Form 10-K, which will be filed with the United States Securities and Exchange Commission, contain data showing the estimated replacement cost of the Company's property (excluding mineral resource assets) and inventory together with the related effects on depreciation, depletion and amortization expense and cost of sales and operating expenses. The present value of the estimated future net revenues resulting from the production of mineral resource assets will be included in that report under Item 3, Properties, in lieu of replacement cost data.

14. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data (in thousands of dollars except for per share amounts) for 1978 and 1977 is as follows:

	Three months ended			
	March 31	June 30	Sept. 30	Dec. 31
1978				
Net sales and operating revenues	$141,422	179,166	204,216	178,364
Gross profit	41,484	52,247	57,791	52,165
Net earnings	8,888	13,578	16,596	16,398
Net earnings per common share Basic	0.80	1.23	1.50	1.48
Fully diluted	0.78	1.19	1.45	1.44
1977				
Net sales and operating revenues	$125,182	161,728	180,635	152,824
Gross profit	35,212	47,160	47,278	39,938
Net earnings	6,747	12,904	13,049	10,107
Net earnings per common share Basic	0.68	1.28	1.18	0.91
Fully diluted	0.61	1.15	1.15	0.89

The Company's business is fairly seasonal with sales volumes much higher during the summer months.

Auditors' Report

TO THE SHAREHOLDERS OF HUSKY OIL LTD.

We have examined the consolidated balance sheets of Husky Oil Ltd. as at December 31, 1978 and 1977 and the consolidated statements of earnings, other paid-in capital and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The Company is currently involved in litigation seeking relief from the restrictive profit margin limitation imposed by the United States of America, Department of Energy, entitlements program, as discussed in note 10. It is not possible to predict the ultimate outcome of the matter at this time.

In our opinion, subject to the effects, if any, on the consolidated financial statements of the ultimate resolution of the matter referred to in the preceding paragraph, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and 1977 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of accounting for leases as described in note 9 (with which we concur), on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Calgary, Canada
February 7, 1979

Financial and Operating Summary

	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
Financial (thousands of dollars except per share figures)										
Sales and operating revenues	**$703,168**	620,369	522,357	454,391	435,306	252,598	204,324	184,185	176,226	163,493
Equity in earnings of Empire State Oil Company	—	—	—	—	—	—	—	1,494	758	—
	703,168	620,369	522,357	454,391	435,306	252,598	204,324	185,679	176,984	163,493
Cost of sales and operating expenses	**499,481**	450,781	383,324	316,347	319,416	173,215	143,456	130,746	128,821	117,231
Selling, general and administrative expenses	**42,952**	38,309	32,891	28,249	25,871	20,606	18,107	15,937	14,949	14,443
Interest (net of interest income)	**16,318**	13,595	13,203	10,988	10,193	8,249	8,637	9,887	9,261	8,264
Other (including depreciation, depletion and amortization)	**47,742**	40,906	37,563	31,727	27,734	25,575	20,651	18,122	16,836	15,690
	606,493	543,591	466,981	387,311	383,214	227,645	190,851	174,692	169,867	155,628
Earnings before income taxes and extraordinary items	**96,675**	76,778	55,376	67,080	52,092	24,953	13,473	10,987	7,117	7,865
Income taxes										
Current	**24,267**	22,360	18,136	21,550	17,592	1,914	(2,686)	72	143	—
Deferred	**16,948**	11,611	7,437	9,734	5,271	8,339	7,042	2,469	649	1,615
	41,215	33,971	25,573	31,284	22,863	10,253	4,356	2,541	792	1,615
Earnings before extraordinary items	**55,460**	42,807	29,803	35,796	29,229	14,700	9,117	8,446	6,325	6,250
Extraordinary items — net	—	—	—	—	—	—	1,338	—	(1,033)	—
Net earnings	**55,460**	42,807	29,803	35,796	29,229	14,700	10,455	8,446	5,292	6,250
Dividends on preferred shares	**469**	493	523	559	587	612	644	665	694	716
Earnings for common shares	**$ 54,991**	42,314	29,280	35,237	28,642	14,088	9,811	7,781	4,598	5,534
Common shares outstanding (weighted average in thousands)	**10,960**	10,417	9,784	9,730	9,704	9,579	9,536	9,416	9,411	9,405
Earnings per common share from operations	**$ 5.02**	4.06	2.99	3.62	2.95	1.47	0.89	0.83	0.60	0.59
From extraordinary items — net	—	—	—	—	—	—	0.14	—	(0.11)	—
	$ 5.02	4.06	2.99	3.62	2.95	1.47	1.03	0.83	0.49	0.59
Dividends per common share	**$ 1.00**	0.80	0.80	0.65	0.40	0.15	0.15	0.15	0.15	0.30
Preferred shares outstanding at par value	**7,748**	8,053	8,443	9,081	9,582	9,991	10,388	11,826	12,221	12,620
Working capital provided by operations	**122,412**	100,131	74,714	78,752	63,035	52,618	33,820	29,282	23,288	24,244
Capital expenditures	**146,818**	91,998	99,407	68,325	62,251	68,154	35,044	34,656	47,209	39,535
Working capital	**34,350**	54,388	48,819	39,110	33,326	36,051	29,232	15,999	16,750	15,388
Long-term debt	**145,946**	134,788	157,603	116,182	117,080	118,566	98,415	111,144	109,052	100,371
Operations										
Production — Daily Average										
Net crude oil and gas liquids										
Barrels	**35,200**	35,287	37,301	43,949	43,015	43,984	41,482	38,345	33,265	31,663
Cubic metres	**5 594**	5 607	5 928	6 984	6 836	6 989	6 592	6 093	5 286	5 032
Net natural gas										
Thousand cubic feet	**60,829**	61,061	55,618	58,994	65,460	73,868	76,539	67,271	49,293	46,236
Thousand cubic metres	**1 714**	1 720	1 567	1 662	1 844	2 081	2 156	1 895	1 389	1 303
Refining and marketing — Daily Average										
Refinery runs										
Barrels	**60,080**	59,521	55,719	56,220	59,116	50,828	48,624	50,185	50,044	47,893
Cubic metres	**9 547**	9 458	8 854	8 934	9 394	8 077	7 727	7 975	7 952	7 611
Refined product sales										
Barrels	**71,007**	68,638	64,895	60,541	63,958	58,662	55,330	53,285	56,961	52,730
Cubic metres	**11 284**	10 907	10 312	9 621	10 164	9 322	8 792	8 468	9 052	8 379

Note: The years 1974 through 1977 have been restated to reflect retroactive adoption of a new accounting policy for leases. See note 9 of the Notes to Consolidated Financial Statements. The years prior to 1974 were not restated because the effects of recorded leases were immaterial to any individual year's operations. Net earnings for 1973 were reduced $1,621,000 for the cumulative effect to December 31, 1973.

Board of Directors

Glenn E. Nielson
Cody, Wyoming
Chairman of the Board
Husky Oil Ltd.
Chairman of the Board
Gate City Steel

James E. Nielson
Cody, Wyoming
President
Husky Oil Ltd.

S. R. Blair
Calgary, Alberta
President and Chief Executive Officer
Alberta Gas Trunk Line Company Limited

J. Waddy Bullion
Dallas, Texas
Partner, Law Firm of Thompson, Knight, Simmons and Bullion

Ronald N. Dalby
Edmonton, Alberta
Management and Engineering Consultant

William D. Dickie, Q.C.
Calgary, Alberta
Energy Advisor

George S. Eccles
Salt Lake City, Utah
Chairman of the Board
First Security Corporation and Chairman of First Security Bank of Utah

David M. Kennedy
Salt Lake City, Utah
Retired Banker

J. K. McCausland
Willowdale, Ontario
Retired Investment Dealer

William F. Mitchell
Toronto, Ontario
Chairman, Mitchell Plummer and Co. Financial Consultants

Robert L. Pierce, Q.C.
Calgary, Alberta
Executive Vice-President
Alberta Gas Trunk Line Company Limited

William C. Rankin
Calgary, Alberta
Senior Vice-President and Controller
Alberta Gas Trunk Line Company Limited

Officers

Glenn E. Nielson
Chairman of the Board

James E. Nielson
President

R. M. McManis
Executive Vice-President

R. Strother
Senior Vice-President

J. M. Wilkinson
Senior Vice-President

J. A. Williams
Senior Vice-President

E. R. Blasken
Vice-President

W. G. Brantz
Vice-President

G. S. Dibble, Jr.
Vice-President

M. D. Ensign
Vice-President

C. W. Fink
Vice-President

J. G. McKenzie
Vice-President

R. Y. Pogontcheff
Vice-President

J. V. Sheffield
Vice-President

M. F. Westfall
Vice-President

L. E. Saunders
Vice-President, Treasurer and Controller

D. H. Flora
Secretary, General Counsel

J. H. Manning
Executive Vice-President
Husky Oil (International), Inc.

J. W. Rimmer
President
Gate City Steel Corporation

J. P. Keeter
President
Husky Industries, Inc.

J. W. Dowden
President
Husky Oil NPR Operations, Inc.

Carroll C. Livingston
Vice-President and Manager
Husky Oil NPR Operations, Inc.

Husky Oil

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815 Sixth Street S.W.
Calgary, Alberta
T2P 1Y1

United States Offices
Post Office Box 380
Cody, Wyoming
82414

600 South Cherry Street
Denver, Colorado
80222

1980 South Post Oak Road
Ste. 2000
Houston, Texas
77056

1800 "M" Street
Washington, D.C.

Overseas
Manila, Luzon
Philippines

Karachi, Pakistan

Division Production Offices
Lloydminster, Saskatchewan
Santa Maria, California
Denver, Colorado

Refineries
Cheyenne, Wyoming
Cody, Wyoming
Lloydminster, Alberta
Prince George, British Columbia
Salt Lake City, Utah

Division Marketing Offices
Denver, Colorado
Billings, Montana
Salt Lake City, Utah
Calgary, Alberta
Winnipeg, Manitoba
Spokane, Washington

Husky Industries, Inc.
62 Perimeter Center East
Atlanta, Georgia
30346

Sales Offices:
Minneapolis, Minnesota
Ocala, Florida
Scotia, New York

Plant Locations:
Branson, Missouri
Dickinson, North Dakota
Isanti, Minnesota
Medford, Oregon
Ocala, Florida
Pachuta, Mississippi
Romeo, Florida
Stamford, New York
Waupaca, Wisconsin

Gate City Steel Corporation
P.O. Box 14022
Omaha, Nebraska
68114

District Offices:
Albuquerque, New Mexico
Boise, Idaho
Chicago, Illinois
Davenport, Iowa
Denver, Colorado
Gary, Indiana
Idaho Falls, Idaho
Omaha, Nebraska
Pocatello, Idaho
St. Paul, Minnesota
Salt Lake City, Utah
Sterling, Illinois
Tulsa, Oklahoma

Husky Oil NPR Operations, Inc.
Houston, Texas
Anchorage, Alaska

Husky Enterprises, Inc.
Houston, Texas

Transfer Agents and Registrars

Common Shares:
Montreal Trust Company
Offices at Calgary, Halifax, Montreal, Regina, Saint John, Toronto, Vancouver and Winnipeg

The Chase Manhattan Bank
New York City

Preferred Shares:
Montreal Trust Company
At above offices

Auditors
Peat, Marwick, Mitchell & Co.
Calgary, Canada

Husky Oil 1978 Annual Report

LITHO'D IN CANADA
AGENCY PRESS LIMITED

Husky Oil Ltd.

AR28

Quarterly Report
To Shareholders
Six Months Ended
June 30, 1978

Husky's first quarterly report this year advised that the Province of Saskatchewan was introducing new legislation to change its method of collecting revenue on oil production. Although Bill 47, which allows the Saskatchewan government to levy an oil well income tax, was passed by the Saskatchewan legislature in January, 1978, administrative regulations still have not been promulgated. We continue to be advised by the Province that the intent of Bill 47 is to maintain the revenue sharing relationship between the Province and the industry that existed prior to November, 1977.

Gross natural gas production during the first half of 1978 was 83.0 million cubic feet per day, down slightly from the 84.5 million cubic feet per day averaged in the same period last year. Net natural gas production decreased from 64.5 million cubic feet per day in 1977 to 63.6 million cubic feet per day in 1978. The reduction in gas volumes occurred in the United States. It is anticipated production from earlier natural gas discoveries offshore Louisiana, in New Mexico and in the Fuller Reservoir area of central Wyoming will reach markets during the second half of 1978.

During the second quarter the development drilling programs near the Ackman Unit in Nebraska and in the new Cody field in the Big Horn Basin of Wyoming were expanded. The development drilling program in Lloydminster has been accelerated and the company presently has six drilling rigs in use in the area. Husky's plans, instituted earlier this year, for more accelerated drilling are presently proceeding on the basis of rig availability.

As an addition to a joint exploration program, ongoing since 1973, Husky and Burton-Hawks, Inc. have entered into a contract drilling joint venture. The venture owns three drilling rigs, each of which is equipped for air drilling, and an interest in one service rig. Burton-Hawks will act as operating manager for the venture. The Husky/Burton-Hawks exploratory joint venture will use one of the air drilling rigs in a multi-well stratigraphic test program to be conducted throughout the Rocky Mountain area of the United States.

The posted price for Canadian crude oil production at the well head was increased $1.00 per barrel on July 1, 1978 in the third of a series of four price increases of this magnitude, at intervals of six months, begun July 1, 1977. A further increase of $1.00 per barrel is expected on January 1, 1979. A portion of these price increases is passed on to the producer.

Refining and Marketing

During the first half of 1978 refining throughput was 52,700 barrels per day compared to 56,000 barrels per day during the first six months of 1977. Throughput was adversely affected by high fuel oil inventories which resulted in the curtailment of refinery runs generally, and by the strike action of the Oil Chemical and Atomic Workers at the Prince George, British Columbia refinery from April 19 to May 31.

Refined product sales for the first six months this year totalled 62,500 barrels per day, an increase of 1,500 barrels per day over the same period in 1977. The improvement was due to continuing sales increases in the United States while the Canadian light oil market continued to experience highly competitive conditions.

Heavy oil sales have been adversely affected by generally weak fuel oil markets and were additionally reduced in Canada by the strike at Husky's Prince George refinery. Asphalt demand is currently strengthening at our refineries in both Canada and the United States.

The United States Temporary Court of Appeals has sustained the previously announced Wyoming Federal District Court ruling of March 14, 1978. The District Court ruling held in favor of Husky in our lawsuit regarding the profit margin limitation imposed upon Husky under the refining crude oil cost equalization or "Entitlements" program. The court decisions overruled an earlier U.S. Department of Energy (DOE) decision which imposed a profit margin limitation on Husky's U.S. refining and marketing operation no greater than the profit margin realized during exceptional base period years.

The Appeals Court has remanded the case to the DOE with specific instructions for reconsideration of Husky's application for exception relief and appropriate adjustments. The impact this decision will have upon Husky will not be known until DOE completes its reconsideration, as directed by the courts. However, it is anticipated there will be a positive impact upon last year's earnings. DOE has 21 days, from August 10, within which to request a rehearing or seek review by the United States Supreme Court.

New product development activity in the first half of 1978 included research on cogeneration of electricity and heat, on development of a dust suppression coal spray oil and of specialty asphalt products such as hard-asphalt emulsion, sulphur-asphalt emulsions and paving patching material. A research project on California heavy crude oil upgrading was also begun in the period.

Husky Oil NPR Operations, Inc.

The geophysical and exploratory field work for fiscal year 1978 has been completed except for two all-season deep wells, one of which is now drilling. The work program for fiscal year 1979 is nearly finalized and plans currently indicate that it will amount to a total cost of about $210 million. Fiscal year 1979 commences October 1, 1978.

Gate City Steel

Gate City Steel's sales in the first half of 1978 increased 17 percent to $41.3 million from $35.2 million last year. Net earnings of $994,000, after tax, for the period were down 6 percent from 1977 results as the steel industry continued to experience severely competitive market conditions. Market conditions are improving but substantial changes are not expected for the remainder of the year.

Husky Industries

The operations of the Company's briquetting and carbon subsidiary, Husky Industries, resulted in a slight increase in earnings over last year's record high performance for the six month period. Net earnings totalled $2.1 million. Sales increased by 6 percent to $27.2 million. Volumes of both briquets and activated carbon were relatively unchanged from last year's results. Sales were limited due to lack of finished product inventories. Additional production capacity was late in start-up because of delays in approvals from environmental regulatory agencies. The company expects to continue at full operational manufacturing capacity into the third quarter.

General

Events surrounding developments in Husky during the past two months have received wide press coverage, particularly in Canada. Although I am sure you are aware of these happenings it might be well to briefly review them.

On Saturday, June 10, the management of Husky received notification from Petro-Canada, the Canadian Government owned oil and gas concern, that they intended to make an offer for any or all of Husky's shares. Occidental Petroleum Corporation indicated they too were interested in making an offer for the shares of Husky. Occidental's proposed offer involved the exchange of their preferred shares for common shares of Husky. On Monday, June 12, Husky's Board of Directors met and considered Petro-Canada's and Occidental's proposed offers. The Board found the Occidental proposal to be superior and recommended it to the shareholders. Shortly thereafter, both Petro-Canada and Occidental announced improvements in their respective offers.

At the time of the Petro-Canada and Occidental proposed offers, Alberta Gas Trunk Line Company, Ltd. (AGTL) informed Husky and the public, that since the first of the year they and another company had jointly acquired over 3 percent of Husky's common shares on the open market. AGTL is a natural gas transmission company with interests in manufacturing, petrochemicals, and gas production sales and service in Canada and manufacturing in the United States and Italy. During the latter part of June, AGTL purchased additional Husky shares on the open market and increased their holdings to approximately 35 percent of the outstanding shares of Husky.

AGTL announced their 35 percent ownership on June 29. Petro-Canada subsequently announced they did not intend to proceed with their proposed offer and late in July, Occidental Petroleum announced they had withdrawn their application before the Canadian Foreign Investment Review Agency as well as their registration statement with the United States Securities and Exchange Commission. During the month of July and in early August Alberta Gas Trunk Line increased their ownership to some 39 percent of Husky's outstanding common shares.

At the July 27 meeting of Husky's Board of Directors, Mr. F. Richard Matthews, Q.C. and Mr. Hugh H. Millar resigned as directors of the Company. Another director, Mr. Ward C. Pitfield, had previously resigned.

Mr. S. Robert Blair, President and Chief Executive Officer of Alberta Gas Trunk Line Company, Ltd. (AGTL); Robert L. Pierce, Executive Vice President of AGTL and William C. Rankin, Senior Vice President and Controller of that organization were named to fill the vacant Husky Board positions. The new appointees will serve the unexpired terms of the directors who have resigned, which is until the next general meeting of Husky's shareholders, presently scheduled for April, 1979. Also, Mr. Blair and Mr. Pierce were named to the five member Executive Committee of the Board.

Along with our efforts to develop the Lloydminster heavy oil reserve, Husky received, on July 21, a joint proposal from Petro-Canada and Gulf Canada Limited for their participation in that area. The proposal, which is currently under study by Husky, is the result of negotiations begun with Petro-Canada in the spring of 1977 and with Gulf late last fall. Husky had expected to receive this proposal late in February of this year and subsequently agreed to meet with the two companies and discuss it on June 19, 1978. In light of the developments that commenced in early June, the meeting was not held.

Husky today has as many or more opportunities as it did before, and Husky's management will continue to operate the company in the best short and long term interest of the shareholders, our employees and the countries in which we operate.

Sincerely,

James E. Nielson

JAMES E. NIELSON,
President

August 15, 1978

PRINTED IN CANADA

To The Shareholders:

Financial

Husky's net earnings, unaudited for the first six months of 1978 improved to a record high of $22.5 million, or $2.03 per share, from $19.7 million, or $1.96 per share, for the same period last year. Fully diluted earnings were $1.97 per share this year compared to $1.76 (recalculated) per share for the first six months of 1977. The net earnings are after a total provision for cash and deferred income taxes of $18.4 million in 1978 and $15.9 million in 1977.

Sales and operating revenues were $320.6 million, up 12 percent from $286.9 million for the first six months last year. Cash flow from operations improved to $51.5 million from $49.1 million for the comparable period in 1977, an increase of 5 percent. The increase in earnings is attributable to higher crude oil production income.

Exploration and Production

During the second quarter our active exploration drilling program was continued in Canada, in the United States and offshore the Philippines and Pakistan. General exploration activity also included an expansion of Husky's land position in the Wind River Basin of Wyoming and in the Lloydminster region of Alberta/Saskatchewan.

Husky's Massacre Hills exploratory well, which is currently drilling below 17,000 feet in the Green River Basin of Wyoming, has encountered natural gas shows in the Hilliard, Frontier and Dakota formations. Although drill stem tests in the Frontier and Dakota sands did not indicate probable commercial potential in these formations, additional drilling and testing will be conducted prior to a final evaluation of the well.

A successful Husky interest well, drilled to a depth of 11,000 feet in Eddy County, New Mexico, encountered 110 feet of net gas pay in the Morrow formation and flowed natural gas at a rate of 20 million cubic feet per day on a drill stem test. Present assessments of the discovery, which has a calculated absolute open flow potential of 61 million cubic feet per day, indicate it may be the largest natural gas well in this section of New Mexico. Husky has interests in acreage adjacent to the discovery well and additional drilling is planned.

In the first six months of 1978 gross crude oil production was approximately the same at 46,700 barrels per day compared to 46,800 barrels per day for the same period in 1977. Net crude oil volumes increased to 36,700 barrels per day from 33,700 barrels per day in 1977. The net crude oil volumes increased at a greater rate than gross crude oil volumes due to a change by the Saskatchewan government in collecting revenue on Crown acquired leases.

HUSKY OIL LTD.

CONSOLIDATED STATEMENTS OF EARNINGS

	Six months ended June 30, 1978	Six months ended June 30, 1977	Increase (Decrease) %
Sales and operating revenues	**$320,588,000**	286,910,000	12
Costs and expenses			
Cost of sales and operating expenses	**226,857,000**	204,538,000	11
Selling, general and administrative expenses	**22,082,000**	19,552,000	13
Interest (net of interest income of $687,000 in 1978 and $263,000 in 1977)	**7,794,000**	7,415,000	5
Miscellaneous — net	**227,000**	(413,000)	—
Depreciation and amortization	**12,525,000**	11,268,000	11
Depletion	**9,836,000**	8,585,000	15
Minority interest in earnings of consolidated subsidiary	**412,000**	412,000	—
	279,733,000	251,357,000	11
Earnings before income taxes	**40,855,000**	35,553,000	15
Income taxes			
Current	**11,781,000**	7,495,000	57
Deferred	**6,608,000**	8,407,000	(21)
	18,389,000	15,902,000	16
Net earnings	**$ 22,466,000**	19,651,000	14
Earnings per common share			
Basic	**$2.03**	1.96	4
Fully diluted	**$1.97**	1.76	12
OPERATING SUMMARY (Daily Averages)			
Gross crude oil and gas liquids — bbls	**46,678**	46,757	—
Net crude oil and gas liquids — bbls	**36,676**	33,707	9
Gross natural gas — mcf	**82,969**	84,508	(2)
Net natural gas — mcf	**63,590**	64,530	(1)
Refining throughput — bbls	**52,654**	56,006	(6)
Refined product sales — bbls	**62,509**	60,988	2

Notes: (1) Figures are unaudited and accounts of U.S. subsidiaries are included at $1 U.S. = $1 Canadian.

(2) The 1977 condensed consolidated Balance Sheet has been restated to comply with the United States Financial Accounting Standards Board's Statement No. 13, "Accounting for Leases". The 1977 consolidated Statement of Earnings and the condensed consolidated Statement of Changes in Financial Position have not been restated because of immateriality. The effect on 1978 earnings is not significant.

HUSKY OIL LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Six months ended June 30, 1978	1977
Funds provided by		
Operations	**$ 51,488,000**	49,107,000
Long-term debt	**20,000,000**	15,546,000
Issue of common shares	**771,000**	22,046,000
Other	**713,000**	1,289,000
	72,972,000	87,988,000
Funds used to		
Acquire property, plant and equipment	**55,576,000**	43,652,000
Retire long-term debt	**3,746,000**	30,700,000
Pay dividends	**5,702,000**	4,171,000
Other	**999,000**	979,000
	66,023,000	79,502,000
Funds added to working capital	**$ 6,949,000**	8,486,000

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 1978	1977 (Restated)
Current assets	**$225,146,000**	187,025,000
Property, plant and equipment — net	**435,276,000**	381,168,000
Other assets	**19,857,000**	18,734,000
Total assets	**$680,279,000**	586,927,000
Current liabilities	**$163,780,000**	129,849,000
Long-term debt	**151,089,000**	141,928,000
Deferred credits, etc.	**78,708,000**	64,710,000
Shareholders' equity	**286,702,000**	250,440,000
Total liabilities and shareholders' equity	**$680,279,000**	586,927,000

See footnotes to Consolidated Statements of Earnings

Husky Oil Ltd.

Quarterly Report
To Shareholders

Six Months Ended
June 30, 1978